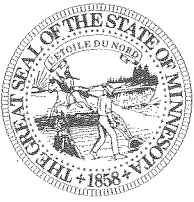


**DEPARTMENT OF TRANSPORTATION
FINANCIAL AND COMPLIANCE AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1985**

JULY 1986

**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Randolph W. Peterson, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Richard P. Braun, Commissioner
Department of Transportation

Audit Scope

We have completed a financial and compliance audit of the Department of Transportation Central Office for the three years ended June 30, 1985. Our audit procedures applied to these years varied and are further described in the audit techniques section of this letter. Section I provides a brief description of the department's activities and finances. The audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. Field work was completed on April 2, 1986.

We have issued separate management letters dated March 23, 1984, February 20, 1985, and February 12, 1986 as a part of our Statewide Financial and Single Audit work in the department for fiscal years 1983, 1984, and 1985. The management letters contained 24, 15, and 14 recommendations relating to fiscal years 1983, 1984, and 1985, respectively. Our conclusions are referenced only to the fiscal year 1985 Statewide Financial and Single Audit report. All prior year recommendations pertain to internal accounting controls or have been resolved by the U.S. Department of Transportation.

The audit objectives were to:

- study and evaluate major internal control systems at the Department of Transportation Central Office (Mn/DOT), including a review of receipts and administrative disbursements;
- study and evaluate EDP general controls for the central office and Cost Accounting System application controls;
- verify that financial transactions were made in accordance with applicable laws, regulations, and policies, including Minn. Stat. Chapters 161, 162, 174, and 360, and other finance-related laws and regulations; and
- evaluate the recording and reporting of financial transactions on the Statewide Accounting (SWA) System.

Mn/DOT maintains 15 district and subdistrict offices under the management of district engineers, but Mn/DOT has overall responsibility for guidance and coordination. Audit coverage of the districts is performed separately on a periodic basis and is not included in the scope of this examination.

Management Responsibilities

The management of the Department of Transportation Central Office is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

The management of the Department of Transportation Central Office is also responsible for the department's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by Mn/DOT. The purpose of our testing of transactions was to obtain reasonable assurance that Mn/DOT had, in all material respects, administered their programs in compliance with applicable state laws and regulations.

Audit Techniques

The Statewide Financial and Single Audit work conducted in the department for fiscal years 1983, 1984, and 1985 concentrated mainly on construction expenditures, federal revenue, and on the administration of U.S. Department of Transportation funds in accordance with federal rules and regulations, specifically Catalog of Federal Domestic Assistance Nos. 20.102, 20.106, and 20.205. This departmental audit for the three years ended June 30, 1985 supported the Statewide Financial and Single Audit work and focuses mainly on state accounting and administrative controls, operating procedures, and rules and regulations.

We rely upon the audit work performed by the Mn/DOT internal auditors for most of the Single Audit work. In addition, we did not include payroll in our scope. The Mn/DOT internal auditors are currently performing an audit of payroll.

Conclusions

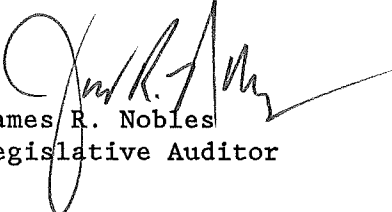
In our opinion, except for the issues raised in recommendations 1-14 in Section II of this report, recommendation 1 and Internal Auditors recommendations 1, 3, 5, and 8-13, discussed in the 1985 Statewide Financial and Single Audit management letter dated February 12, 1986, and except for payroll which we did not audit, the Department of Transportation Central Office system of internal accounting control in effect on June 30, 1985, taken as a whole, was sufficient to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

In our opinion, except for Internal Auditors recommendations 2-4 discussed in the 1985 Statewide Financial and Single Audit management letter, for the three years ended June 30, 1985, the Department of Transportation Central Office has administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

In our opinion, except for Internal Auditors recommendations 6-7 discussed in the 1985 Statewide Financial and Single Audit management letter, for the three years ended June 30, 1985, the Department of Transportation Central Office properly recorded in all material respects, its financial transactions on the statewide accounting system.

The recommendations included in this report are presented to assist the department in improving accounting procedures and controls. We will be monitoring and reviewing the Mn/DOT's progress on implementing these recommendations.

We would like to thank the Department of Transportation Central Office staff for the cooperation extended to us during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

June 30, 1986

DEPARTMENT OF TRANSPORTATION

CENTRAL OFFICE

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AUDIT PARTICIPATION

The following members of the Office of the Legislative Auditor participated in this audit:

John Asmussen, CPA	Deputy Legislative Auditor
Margaret Jenniges, CPA	Audit Manager
Ken Vandermeer, CPA	Auditor-in-Charge
Colleen Berg	Staff Auditor
Paul Cullen	Staff Auditor
Chuck Hoistad	Staff Auditor
Chris Buse	Intern
Joan Haskin	Intern

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following:

DEPARTMENT OF TRANSPORTATION

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I. INTRODUCTION

The Department of Transportation (Mn/DOT) is a service and regulatory agency which develops and implements plans and programs for the operation of statewide transportation systems and facilities. Mn/DOT also provides grant-in-aid funds as well as technical assistance to counties, municipalities, and other local transportation authorities for highway, aeronautics, and public transportation purposes. In order to accomplish these objectives, Mn/DOT has established 15 district and subdistrict offices in addition to the central office.

Total department revenues for fiscal years 1983, 1984, and 1985 were approximately \$263.3 million, \$286.2 million, and \$327.6 million, respectively. The primary source of revenue is federal grants. Approximately \$286.7 million was received in federal grants for fiscal year 1985. An additional \$19.4 million was received in other intergovernmental revenue. The remaining \$21.5 million consists of \$13.4 million from service charges, \$2.3 million from permits, and \$5.8 million from reimbursements, restitutions, and other departmental earnings.

Central office expenditures for the three fiscal years reviewed and the percentage relationship to total departmental expenditures are as follows for the four major cost categories at Mn/DOT:

	<u>FY 1983</u>	<u>FY 1984</u>	<u>FY 1985</u>
Salaries	\$ 37,396,385	\$ 40,364,910	\$ 44,202,577
Right-of-Way	45,702,706	42,628,645	56,413,549
Grants-in-Aid	198,968,943	229,519,376	286,612,208
Miscellaneous Expenditures	<u>30,116,873</u>	<u>33,857,282</u>	<u>51,586,375</u>
 TOTAL CENTRAL OFFICE	 <u>\$312,184,907</u>	 <u>\$346,370,213</u>	 <u>\$438,814,709</u>
 Percent of Total Departmental Expenditures	 46.6%	 45.8%	 47.9%

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II. CURRENT FINDINGS AND RECOMMENDATIONS

Mn/DOT needs to develop a more equitable means of distributing investment income.

There are two state-aid transportation systems in Minnesota. The county state-aid highway system consists of routes approved by the Commissioner of Mn/DOT and constructed, improved, and maintained by the counties. The municipal state-aid street system is similar to the county system except that the system is located within cities having a population of 5,000 or more. The municipal system is constructed, improved, and maintained by the cities. Two funds (County State-Aid Highway and Municipal State-Aid Street) have been established to provide the counties and cities with financial assistance in constructing, improving, and maintaining the systems. Both funds are financed through revenue collected by the Highway User Tax Distribution Fund and income from the investment of those funds.

Each January, Mn/DOT calculates the total amount available in each fund based upon actual income for the preceding July through December and estimated income for January through June. The total estimated income available from the County State-Aid Highway Fund (County) and the Municipal State-Aid Street Fund (Municipal) for calendar year 1985 was \$174,307,624 and \$58,278,184, respectively.

The income is apportioned to the counties and municipalities in accordance with formulas established in Minn. Stat. Sections 162.07 and 162.14. The money apportioned to each county and municipality is further apportioned for construction and maintenance.

The current method of allocating investment income earned by the county and municipal funds is not equitable for all counties. Ninety-five percent of the approved construction project costs are paid to the county or municipality at the time the project is approved by Mn/DOT. The remaining five percent is paid upon project completion and submission of the final reports. In some instances the county or municipality does not have sufficient funds available in its apportionment to fund a construction project or does not have a project ready for approval. When this occurs, the apportionment remains in the county or municipal fund available for later use by the county or municipality. The funds are invested with the investment income credited to the fund, rather than to the county whose apportionment is earning the income. This investment income, together with the income from the investment of revenue from the Highway User Tax Distribution Fund, is then included in the estimated available income for distribution the subsequent year. In fiscal year 1985, the county fund earned \$14.4 million in investment income and the municipal fund \$8.9 million.

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The counties and municipalities who have approved projects and receive 95 percent of the project costs immediately, are able to invest this money and use the investment income for other county or municipality expenses. The state-aid portion of the projects we reviewed ranged from about \$7,000 to over \$1.5 million. Most projects are completed within two or three years. However, some projects are open ten years or more before the final reports are filed and the total project costs accumulated. In addition to receiving larger apportionments in the subsequent year from income earned on other counties or municipalities apportionments, these counties and municipalities also are earning additional funds to use for general operations.

To illustrate the potential inequity, assume a county has a project approved for \$1 million in state aid. The project is expected to take three years to complete. The county will receive \$950,000 in the initial payment. If we further assume that the county spends \$350,000 during the first year of the project life and \$300,000 each of the remaining two years, the county could earn over \$100,000 in interest income. This interest income can then be used for other county expenses, not necessarily for highway projects. On the other hand, if the county received its funds commensurate with the timing of its cash outflow needs, then the state's county fund would earn the investment income. Again, any investment income credited to the county fund must be used exclusively for highway projects and is redistributed among all counties.

We did not quantify the extensiveness of the inequities in the current system. However, we believe that Mn/DOT should study the current system and attempt such a quantification. Assuming that the degree of inequities justify changes to the state-aid system, we foresee two possible methods of more equitably distributing investment income. One method would be to distribute the construction payments throughout the expected project duration. The apportionment not distributed would remain in the county or municipality fund and be invested. The investment income from those funds would then be allocated based upon the prescribed formula. This method would prevent counties and municipalities having current projects from earning an excessive amount of interest income on the project funds.

Another possible method of more equitably distributing the funds would be to increase a county or municipality apportionment by the amount of investment income earned by the county or municipality fund on that individual county's or municipality's apportionment. This would have the effect of providing those counties and municipalities who do not receive their apportionment each year, with the same opportunity to earn investment income on those funds. The one difference would be that this investment income must be used on state-aid projects. Thus, to achieve total equity, counties earning investment income on the apportionments in their possession, should restrict use of the income to state-aid construction projects.

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RECOMMENDATION:

1. Mn/DOT should study the current state-aid system to determine whether a more equitable system is justified. Specifically Mn/DOT should analyze whether local governments are holding state-aid payments for a significant time period prior to incurring construction costs. Also, Mn/DOT should review the extent that local governments are earning investment income on state-aid funds and how any income is expended.

Controls over receipt collections need improvement.

The cash accounting unit deposits receipts centrally for all Mn/DOT divisions. Some receipts, such as federal reimbursements, transportation permits, restitutions, right-of-way rents, T-hangar accounts, and advertisements, are received and processed by the cash accounting unit. Other types of receipts are received and processed by various Mn/DOT divisions or sections and then forwarded to the cash accounting unit to be deposited centrally.

The segregation of incompatible functions is an essential element of accounting control at all locations where receipts are received and processed. Incompatible functions are ones that if performed by one person, would allow that person to make and conceal an irregularity or an error that would not be detected. Independent reconciliations are also essential to properly account for all funds received. The various functions or duties that were inadequately segregated or absent are as follows:

- Cash Accounting Unit: The mail is opened by a secretary and delivered to the cash unit without a list being prepared for reconciliation purposes. A supervisor and two employees in the cash unit then process the receipts, post to the computerized system and prepare deposits. The supervisor also reconciles amounts deposited to the amounts posted. These duties are not compatible and should be performed by separate individuals.
- Rates and Regulations Section: Fees from intrastate travel permits and interstate travel stamps, which totaled approximately \$1.4 million in fiscal year 1985, are received from applicants through the mail and are deposited with the Department of Finance. The separation of duties is adequate except that a list of amounts received is not reconciled to amounts deposited and checks are not restrictively endorsed by the individual who opens the mail. This reconciliation should be performed by an individual who does not have access to receipts in order to verify that all monies received were deposited. Also, receipts are not properly safeguarded without a restrictive endorsement.

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- Aircraft Registration Section: Aircraft registration fees, which totaled approximately \$1.7 million in fiscal year 1985, are received and processed by the aircraft registration section at the St. Paul Airport. The mail is opened and date-stamped by two account clerks. A third clerk then inputs the information into the computer, posts to the manual ledgers, endorses the checks, and prepares the deposits. This person also later reconciles the deposits to SWA. The risks of undetected errors can be reduced by having an independent verification of receipts deposited. This can be accomplished by having the persons opening the mail endorse the checks and prepare a listing of receipts. The daily lists should be maintained and periodically compared with the actual deposit slip to ensure that all receipts are deposited. Also, the deposits should be reconciled to the SWA reports on a monthly basis.
- Aeronautics Section: Airport and commercial license fees, which totaled approximately \$200,000 in fiscal year 1985, are processed in the aeronautics section in the central office. The mail is opened and date-stamped. The office manager then prepares a list of the fees received and also prepares the deposit. These two duties should be segregated to provide more effective control. The person opening the mail should prepare the receipts listing. Also, there are no reconciliations of deposits to SWA or licenses and permits issued. Someone other than the office manager should monthly reconcile the deposits to SWA. This person should also reconcile the receipts listings to the deposits periodically. At least annually, the permits and licenses issued should be reconciled to the total receipts.

RECOMMENDATIONS:

2. *Mail should be opened, checks restrictively endorsed, and a list of receipts prepared by an individual who has no access to accounting records.*
3. *Receipt listings should be reconciled to amounts deposited by an individual who has no access to accounting records.*
4. *An individual without access to cash should reconcile receipts to SWA reports on a monthly basis.*
5. *An independent person should reconcile licenses and permits to receipts on a periodic basis.*

EDP Controls

We have reviewed certain EDP controls for Mn/DOT as a part of the departmental audit. The scope of our work was limited to application controls as they relate to the Cost Accounting System (CAS) and the following general controls for the department as a whole:

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- organization and operation controls;
- system development and documentation controls;
- access controls; and
- data and procedural controls.

Hardware and system software controls were not included in this review.

Mn/DOT's computer system processing is primarily handled by the Department of Administration, Information Management Bureau (IMB). Mn/DOT has a programming staff and performs most of its own data entry through remote terminals. Programs are developed using the Time Sharing Option (TSO) system. Programs are stored using Panvalet which is a special disk library at IMB that is used to store programs and files. Computer operations are handled by IMB.

Mn/DOT has its own security officer who creates Logon-ID's which identifies users to the system and allows them access. The security officer protects programs and files by writing access rules using the Access Control Facility (ACF2). This package is maintained by IMB and its use is administered by the IMB Security Officer.

Mn/DOT's Office of Systems and Support Services, which is responsible for computer processing, is divided into two sections; the Administrative Support Services Section and the Systems and Analysis Section.

The Mn/DOT Security Officer reports to an inappropriate level and is not independently reviewed.

The Mn/DOT Security Officer is responsible for controlling access to EDP programs and files. The placement of the security officer in an organization must provide for adequate authority, independence from other areas, and proper reporting relationships.

The Mn/DOT Security Officer is organizationally located in the Information Resources Management Unit in Administrative Support Services. He is currently under several levels of management. His level is not high enough in the organization to provide for adequate authority. The security officer must have authority to deny unauthorized access to programs, enforce follow-up of security violation attempts, and to address other security issues. This could be accomplished by reporting directly to the Assistant Commissioner of Finance and Administration. We feel that it could be difficult for a security officer to deny access to someone who is organizationally above him.

The Mn/DOT Security Officer monitors ACF2 security violation attempts and notifies the employee's supervisor of the violation attempt, when it is felt to be significant. An example of a violation attempt would be an employee trying to anticipate the security officer's password and thus gain security officer status. The security officer also writes access rules for the programs and files. He is thus in the position of writing access rules and monitoring violations. Rule writing and violation

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follow-up are activities that are not being regularly reviewed by an outside party. A review of this type is typically done by internal auditors. The absence of a regular review could allow errors and omissions to go unnoticed.

RECOMMENDATIONS:

6. *The Mn/DOT Security Officer should be at an organizational level high enough to maintain independence and to have adequate authority to deal with security issues.*
7. *A regular independent review of access rule changes and violation attempt follow-ups should be performed by someone independent of the Mn/DOT Security Officer such as the internal auditor.*

Controls over Logon-ID's need improvement.

Access to the computer system is controlled through the use of Logon-ID's and their corresponding passwords. Logon-ID's identify the user to the system and passwords signify that authorization is granted. Programmers and operators sometimes need a Logon-ID change to enable the person to have access to the system when they have forgotten their password. This change typically results from telephone conversations between the security officer, the user, and the user's supervisor. The user is frequently questioned over the phone to provide identification. However, we could not determine whether all verbal authorizations are later supported with written documentation.

The absence of documentation creates the possibility of errors and misunderstandings. It also leaves the burden of support for changes on the Mn/DOT Security Officer. A daily log of verbal authorizations would be a helpful tool to ensure the follow-up of written documentation.

The reporting system for notifying the Mn/DOT Security Officer of employees that have a change in employment status also needs improvement. Reports prepared manually by the Mn/DOT Personnel Division show changes that have been given to the Mn/DOT Security Officer. However, these reports have not been prepared on a regular basis. If an employee's Logon-ID is not cancelled or suspended when there is a change in employment status, an unauthorized and possibly disgruntled employee would have access to the system. A computerized reporting system that matches Logon-ID records to employment records is being developed at IMB. This information will be available to all agencies.

According to a Mn/DOT security policy statement, the time period for suspending Logon-ID's that have not been used is 360 days. We feel that the time period lapsing before a Logon-ID is suspended should be considerably shorter. IMB security personnel recommend suspending a password if it is not used within 90 days. Reports should be available to the Mn/DOT Security Officer stating when a Logon-ID was last used or if it has been used at all. Approximately eight percent of Mn/DOT Logon-ID's have not been

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used at all. These Logon-ID's are "open," meaning that they need no password to use them the first time. If such a Logon-ID is not suspended when it is created, anyone who knows the Logon-ID exists could use it. This circumvents the password protection feature of ACF2 and makes the system vulnerable to unauthorized users.

RECOMMENDATIONS:

8. *The Mn/DOT Security Officer should obtain written documentation to support all modifications to Logon-ID's, including those granted through verbal authorizations.*
9. *The Mn/DOT Security Officer should strengthen procedures for identifying employees with active Logon-ID's that have left or changed employment.*
10. *The Mn/DOT Security Officer should shorten the time period lapsing before a Logon-ID is suspended and suspend Logon-ID's that are not used.*

Cost Accounting System (CAS) program modifications are not always documented.

The program source code provides the detailed documentation for the program's processing logic. The source code is modified on Panvalet and stored on disk or tape at IMB. Changes to the source code are typically listed in the audit trail section of the program. Printed listings of the source code changes are sent to the CAS section since they are responsible for authorizing and documenting all program changes.

Occasionally, the CAS program source code was changed without the audit trail being updated. For example, certain edits were disabled without the change being mentioned in the audit trail section in the program. This is probably due to programmers' oversight. Also, the source code versions of programs were changed on Panvalet without updating documentation in the CAS section. These modifications were all authorized by Mn/DOT personnel, but the source code was not updated nor its accuracy verified.

These weaknesses can result in errors and misunderstandings. A person looking at the source code may rely on edits that are not working. Other programmers may be misled if they are not aware of changes that have been made to the code and have not been listed in the audit trail. Similarly, a person reviewing a source code listing may rely on an inaccurate source code listing.

RECOMMENDATION:

11. *All program modifications should be properly documented in the audit trail. Also, the source code listing maintained by the CAS section should be updated for all authorized changes.*

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CAS programs are not protected by access rules.

The programs for the CAS system were written in COBOL by a consultant. Currently, the program source code and the object code reside on libraries which typically store "test" versions of programs (e.g., ISD.PANLIB and ISD.JOBLIB). These libraries enable programs that are being tested to be changed frequently and easily. Programs in ISD.PANLIB and ISD.JOBLIB are not protected by ACF2 access control rules. Thus, they can be accessed by anyone with TSO clearance.

After testing, programs are usually moved to libraries which are protected by access control rules and they can only be changed by authorized individuals (e.g., ISD.PANLIB01 and ISD.JOBLIB01). Limited access makes the source and object code versions more reliable because of the limited ability to be changed.

The CAS programs have been running for several years now. Many programs have not been changed for years. The programs should be placed in a protected "production" environment to assure that processing is reliable. At a minimum, programs should be stored in a way that access to them can be controlled.

RECOMMENDATION:

12. *The CAS programs should be protected by ACF2 access control rules either by being placed in the production environment or by using protected disk space.*

Mn/DOT program and file names are not standardized and descriptive.

Programs and files are generally named according to standard, descriptive naming conventions. This enables programs to be easily identified for access rule protection, code review, and maintenance. Standardized naming conventions for files enables the shared use of data, access rule protection, and correct file processing.

The accounting programs and files at Mn/DOT use standard, descriptive names. Other personnel, particularly those using the Integrated Civil Engineering System (ICES), frequently store programs and files using a person's Logon-ID as the primary naming convention.

There are numerous problems with the absence of standard descriptive names. First, it is difficult to protect poorly named programs and files. Only the person who created the program or file knows what is in it and who should have access to it. Also, the absence of standard program and file names inhibits the shared use of programs and files. This results in duplicate programs and files, which is an inefficient use of personnel and computer time.

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In addition, if a Logon-ID is deleted, the data sets stored using it as a high level name are also deleted. This creates the possibility of an irretrievable loss of data. Thus, the security officer is forced to maintain a Logon-ID for someone who no longer needs it or delete the files named under the Logon-ID. This occurs quite frequently at Mn/DOT, since Logon-ID's typically signify the area where a person is working. If a person changes areas, the Logon-ID should be changed to remain current and thus all of the programs stored under the old Logon-ID's will have to be moved or deleted.

RECOMMENDATION:

13. *Programs and files should be stored using a standardized naming convention with descriptive names rather than using a person's Logon-ID as the primary naming convention.*

Tapes for critical areas are not backed-up offsite.

The Cost Accounting System (CAS) uses tape files to summarize costs for billing purposes, including all costs reimbursable by the federal government and management reporting purposes. These files are updated daily, weekly, and sometimes monthly based upon data entered from the central office and districts. The files are protected or backed-up by keeping the previous version of the file along with the transactions that updated it.

Program files are backed-up on Panvalet which maintains an offsite backup copy. However, CAS files along with their backups are both stored at IMB in the Centennial Building. An essential control for safeguarding computerized data is separate offsite storage of all backup files. If a problem occurred at IMB, such as a construction failure or fire, the entire set of files could be destroyed. System recovery would be extremely difficult if not impossible. Programs which are backed-up offsite on the Panvalet System would be useless without the data files.

Mn/DOT has been pursuing the idea of storing backup files at an offsite location. Current backup files could be stored at the Mn/DOT building or another site separate from the Centennial Building.

RECOMMENDATION:

14. *Backup tapes for CAS files should be stored at an offsite location.*



Minnesota Department of Transportation
Transportation Building, St. Paul, MN 55155

Office of Commissioner

612-296-3000

June 30, 1986

Mr. James R. Nobles
Office of the Legislative Auditor
Veteran's Service Building
St. Paul, Minnesota 55155

Dear Mr. Nobles:

We have reviewed the draft management letter dated June 10, 1986, which your staff has prepared concerning the financial and compliance audit for the three years ended June 30, 1985 and which we discussed on June 17, 1986. We appreciate the professional and constructive nature of the recommendations. Our responses to your recommendations follow for inclusion in your final report.

Recommendation 1: Mn/DOT should review the current statutes, rules, and procedures to determine the best method of equitably distributing the county and municipal apportionments. Once the method has been determined, Mn/DOT should take the appropriate steps to revise the rules and/or propose Legislation.

Response: The Office of Financial Management, in cooperation with the Office of State Aid, will conduct a study to determine the extent, if any, of inequities associated with the current system of allocating investment income earned by the County State Aid Highway and Municipal State Aid Street Funds. This study will include a preliminary analysis to determine the extent of the problem, and an evaluation of the two alternate methods recommended by you for revising the method of allocation of investment income, if the preliminary study indicates a change in current practices should be considered. We will also inform counties and municipalities about the desirability of depositing investment income earned on state-aid funds advanced to them by Mn/DOT in their Road and Bridge Funds.

Recommendation 2: Mail should be opened, checks restrictively endorsed, and a list of receipts prepared by an individual who has no access to accounting records.

Recommendation 3: Receipt listings should be reconciled to amounts deposited by an individual who has no access to accounting records.

Mr. James R. Nobles
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Recommendation 4: An individual without access to cash should reconcile receipts to SWA reports on a monthly basis.

Recommendation 5: An independent person should reconcile licenses and permits to receipts on a periodic basis.

Responses to Recommendations 2, 3, 4, 5:

Cash Accounting Unit: We agree in theory with the Audit recommendations as to the controls over receipt collections. Implementation of better controls will be accomplished by working with the auditors.

Motor Carrier Safety & Compliance Section (formerly Rates & Regulations): It appears from certain points made in the text concerning these recommendations that all parts of our operating procedures were not adequately explained to the audit team. Considering the fact that independant cash tallies are logged within our operating system, our cash unit, and in SWA, along with the fact that goods cannot be issued without a cash tally in the operating system, plus the fact that separate individuals tally each area, we feel that a good set of fiscal controls exists in this area.

As far as the restrictive endorsement of checks is concerned, the biggest problems are with the high volume of checks involved and the fact that the checks stay with the application until it is determined that the applicant has met legal requirements (i.e., insurance filings). This would mean a considerable amount of extra time for the personnel opening the mail. Before moving towards this process, we feel further review with the audit team would be necessary. If you feel that it would be appropriate, feel free to contact Alan Soder, Motor Carrier Administration Section, for further review of this area.

Aircraft Registration Section: Regarding Recommendations 2, 3, and 5: There are only three employees in the section to be responsible for registration and one of these is a part-time worker. It is not possible to have one person with no access to accounting records. To designate individual tasks specified will require another full-time position. Recommendation 4: Currently, the deposits are always reconciled with the SWA reports on a monthly basis. To fulfill requested recommendations will require additional advice from the auditors.

Aeronautics Operations Section: The receipts for airport and commercial license fees are now being processed by the Aeronautics Operations Section at the St. Paul Downtown Airport. This change was discussed with the legislative auditors at the time of their current audit and implemented May 12, 1986. The licenses are issued by the Aviation Regulation Section located at the St. Paul Downtown Airport. The decision to have the checks mailed directly to this office will eliminate the delay in issuing licenses caused by the previous method of processing in Central Office. The procedures implemented are as follows:

Mr. James R. Nobles
June 30, 1986
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1. Mail is opened, checks are endorsed and a list of receipts is prepared by a clerk stenographer who does not prepare any other records connected with these licenses.
2. A clerk stenographer III in the Aviation Regulation Office prepares the deposit, records the payment and the number of the license to be issued. The amount deposited is then reconciled by the clerk opening the mail.
3. An Aviation Representative employee will reconcile licenses and permits to receipts on a periodic basis.

Recommendation 6: The Mn/DOT Security Officer should be at an organizational level high enough to maintain independence and to have adequate authority to deal with security issues.

Response: The Mn/DOT Data Security Officer is not responsible for granting or denying access to programs or files (as stated in the audit report). The Security Officer is responsible for verifying that the appropriate signature has been obtained on the Dataset Access Request Form. There are individuals specifically authorized to sign the request form for each Mn/DOT system; it is these individuals who determine who may and may not have access to a particular system, not the Security Officer.

In the past, all security violations which have been serious enough to warrant notifying the employee's supervisor have been met with the full cooperation of the supervisor. If a situation arises that requires an individual who is organizationally above the Security Officer (in order to enforce a violation penalty), the Security Office will notify the Director of the Office of Systems and Support Services of the situation. The Office Director will assume responsibility for enforcement of the penalty.

Recommendation 7: A regular independent review of access rule changes and violation attempt follow-ups should be performed by someone independent of the Mn/DOT Security Officer such as the internal auditor.

Response: Mn/DOT Internal Audit will conduct a periodic review of the operations of the Security Officer to determine the adequacy and independence of his activities.

Recommendation 8: The Mn/DOT Security Officer should obtain written documentation to support all modifications to LOGON ID's, including those granted through verbal authorizations.

Response: Written documentation is currently kept on all system access and LOGON ID assignments. Verbal requests for password alteration will be logged by the Security Officer; verbal system access requests will be logged and followed-up with written documentation.

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Recommendation 9: The Mn/DOT Security Officer should strengthen procedures for identifying employees with active LOGON ID's that have left or changed employment.

Response: The need for better information regarding an employee's employment status has been recognized. As mentioned in the audit report, "A computerized reporting system that matches LOGON ID records to employment records is being developed at IMB. This information will be available to all agencies." Mn/DOT will use this information when it is available. The need for this information has also been included in the system requirements for the Personnel and Human Resources Information System that is being developed by Mn/DOT.

Recommendation 10: The Mn/DOT Security Officer should shorten the time period lapsing before a LOGON ID is suspended and suspend LOGON ID's that are not used.

Response: Mn/DOT is currently suspending LOGON ID's that are unused for six months. This was reduced from 360 days, an earlier IMB guideline. The current IMB policy of suspending a LOGON ID if it is not used within 90 days is not advisable for Mn/DOT since many employees annually work in the field for more than 90 consecutive (working) days. LOGON ID's which have never been used are suspended after 30 days. The recently installed version of ACF2 allows for the assignment of an "active date." This remedies the problem of LOGON ID's being "open" until their first use. These suspension policies will be presented to the Mn/DOT Policy Committee for approval.

Recommendation 11: All program modifications should be properly documented in the audit trail. Also, the source code listing maintained by the CAS Section should be updated for all authorized changes.

Response: The Mn/DOT CAS Control Group Supervisor will have the responsibility to ensure that all new program modifications are referenced in the audit section of each modified program. Each change level will also be identified in a CAS Modification Log, where a more detailed description will be listed.

Additionally when modifications are made to the various programs, the procedure will require that the program listing, maintained by the Control Group, be updated upon completion and testing of each modification.

Recommendation 12: The CAS programs should be protected by ACF2 access control rules either by being placed in the production environment or by using protected disk space.

Response: The Accounting and Finance Section will work with the Department of Administration, Information Management Bureau (IMB) in protecting all CAS programs. Initially controls will limit access to Data Manager and use protected disk space for all CAS programs. Authorization for access to any

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CAS programs will be approved by the Mn/DOT Control Group Supervisor. Once current modifications are completed a determination will be made as to whether or not the CAS will be placed in production status.

Recommendation 13: Programs and files should be stored using a standardized naming convention with descriptive names rather than using a person's LOGON ID as the primary naming convention.

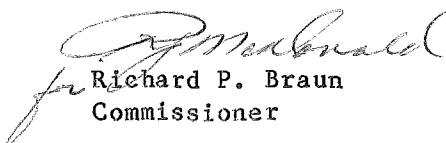
Response: The problem with the ICES naming convention has been identified and is being addressed. Meetings were held with system managers and IMB personnel in May and June. ICES managers agreed to rename all ICES datasets to conform to IMB dataset naming standards. ICES users and user groups are presently being identified in each district.

Recommendation 14: Backup tapes for CAS files should be stored at an offsite location.

Response: The Accounting and Finance Section agrees with this finding. We are presently working with the Office of Systems and Support Services in determining which files are to be stored offsite. Once the determination has been made, changes to the JCL will be made so that copies of all critical tape files will be stored at the Mn/DOT Annex. It is our intention that at a minimum, copies of tape files produced from the CAS Weekly and Yearly Subsystems will be stored at the Annex. The Weekly tapes will be kept for one week, then returned to IMB. Yearly tapes will be replaced annually and returned to IMB.

Again, we wish to thank you for the professional, constructive nature of your recommendations. We will make every effort to see that actions specified in these responses are implemented in a timely manner.

Sincerely,


for Richard P. Braun
Commissioner