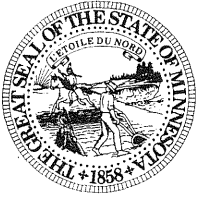


**DEPARTMENT OF TRANSPORTATION
MANKATO DISTRICT OFFICE**

**FINANCIAL AND COMPLIANCE AUDIT
FOR THE PERIOD FROM JULY 1, 1984
THROUGH MARCH 31, 1986**

JULY 1986



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

Mr. Robert Pecore, District Engineer
Department of Transportation - Mankato District

Audit Scope

We have completed a financial and compliance audit of the Department of Transportation, Mankato District, for the period from July 1, 1984 through March 31, 1986. Section I provides a brief description of the district'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 May 15, 1986.

The objectives of this audit were to:

- study and evaluate major internal accounting control systems at the Mankato district in effect as of March 31, 1986, including a review of receipts, administrative expenditures, imprest cash, fixed assets, and consumable inventory. We did not include payroll in our scope. The Mn/DOT internal auditors are currently performing an audit of payroll;
- verify that financial transactions were made in accordance with applicable laws, regulations, and policies including Minnesota Statutes, Chapters 174, 161, and 360, and other finance-related laws and regulations for the period July 1, 1984 through June 30, 1985;
- evaluate the recording and reporting of financial transactions on the statewide accounting system for the period July 1, 1984 through June 30, 1985; and
- determine that accurate records were maintained for consumable inventory as of May 13, 1986, the date of the inventory count, as recorded on the Mn/DOT inventory system.

Senator Randolph W. Peterson, Chairman
Members of the Legislative Audit Commission
Mr. Richard P. Braun, Commissioner
Mr. Robert Pecore, District Engineer
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Management Responsibilities

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

Conclusions

In our opinion, except for the issues raised in Section II, recommendations 1-3, and except for payroll which we did not audit, the system of internal accounting control of the Mn/DOT Mankato District in effect as of March 31, 1986, 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, for the period July 1, 1984 through June 30, 1985, the Mn/DOT Mankato District administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

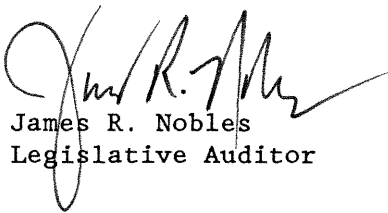
In our opinion, for the period July 1, 1984 through June 30, 1985, the Mn/DOT Mankato District properly recorded, in all material respects, its financial transactions on the statewide accounting system.

In our opinion, as of May 13, 1986, the Mn/DOT Mankato District maintained accurate records for consumable inventory, as recorded on the Mn/DOT inventory system.

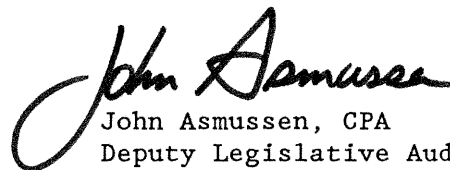
Senator Randolph W. Peterson, Chairman
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Mr. Richard P. Braun, Commissioner
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The recommendations included in this audit report are presented to assist the district in improving accounting procedures and controls. We will be monitoring and reviewing the Mankato district's progress on implementing these recommendations.

We would like to thank the Mn/DOT Mankato District staff for the cooperation extended to us during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

July 15, 1986

DEPARTMENT OF TRANSPORTATION

MANKATO DISTRICT

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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
David Poliseno	Auditor-in-Charge
Chris Buse	Intern

EXIT CONFERENCE

An exit conference was held with the following staff of the Mankato district on May 15, 1986:

Dale Rutzen	Business Manager
Julie Kramer	Office Manager

DEPARTMENT OF TRANSPORTATION

MANKATO DISTRICT

I. INTRODUCTION

The Minnesota Department of Transportation (Mn/DOT) has established nine "A" district and six "B" district offices to provide for the construction and maintenance of state and interstate highways. Six of the districts have subdistrict maintenance offices due to the large geographical area which they cover. The Mankato Department of Transportation District 7A includes Windom as a subdistrict. The Mankato district is under the control of a District Engineer.

The receipts of the district come from permits, the sale of scrap material, and van pool money, and are sent to the Central Office for deposit. Fiscal year 1985 receipts from these sources totaled approximately \$34,510. Expenditures of the district are classified as either maintenance operations or maintenance preservation. Expenditures for fiscal year 1985 totaled \$8,048,000. Of this amount, personal services comprised 79 percent, expense and contractual services comprised 5 percent, and supplies and materials comprised 16 percent.

DEPARTMENT OF TRANSPORTATION

MANKATO DISTRICT

II. CURRENT FINDINGS AND RECOMMENDATIONS

Control over sign posts at the Mankato Mn/DOT district office needs improvement.

The Mankato office has 11 different types of sign posts, varying by length and weight. As part of our review of consumable inventory, we tested two types of sign posts. Our test consisted of verifying the accuracy of the inventory record amounts to the actual number of items on hand. Our review disclosed a discrepancy in the sign posts reported on the consumable inventory system.

The actual sign post count differed from the amounts listed on the Mn/DOT inventory system. We counted 188 of the first type of new sign posts, while the inventory system showed 169. The second type of sign posts counted was 138, while the inventory system showed 170. It is important that the record system accurately reflects the items on hand. A soundly conceived and carefully maintained system of accounting records is necessary to provide reasonable accounting control over consumable inventory. The information kept on file should be of the quality necessary to provide evidence and support for all activities concerning operations. We could not determine the reason for the discrepancy in the count. However, one possibility is that used (previously issued) sign posts are not recorded on the inventory system or properly segregated from the new sign posts. Proper inventory controls require that new and used inventory items be segregated and accounted for separately. Without this segregation control over the sign posts is weak. Used sign posts could erroneously be issued as new ones and accounted for as such on the system.

RECOMMENDATIONS:

1. *New and used inventory items should be properly segregated and accounted for separately by the Mankato district employees.*

The annual physical inventory is not conducted by individuals independent of the inventory functions.

Inventory on hand at the Mankato district office is counted on an annual basis. Counts are performed by the two individuals who are responsible for the purchasing, receiving, and issuing of the inventory. Adjustments are approved by management and made to the Mn/DOT inventory system based on the results of the count.

Effective internal control provides that individuals, other than those in custody of the inventory, should perform the inventory counts. Under the present system, it would be easy for intentional or unintentional errors to be concealed, since those in charge of the inventory are also doing the counts and making the adjustments. If an independent person counts the inventory items, the likelihood of errors being concealed decreases.

DEPARTMENT OF TRANSPORTATION

MANKATO DISTRICT

We understand that due to the nature of the inventory items it may not be prudent to simply have the independent employees do the counts on their own. Rather, someone, possibly from the business office, should accompany the inventory employees on their count and verify that the items were being properly counted.

RECOMMENDATION:

2. *Someone independent of the inventory and custodial functions should participate in the annual physical inventory.*

The doors at the New Ulm truck station were left unlocked when unattended by Mn/DOT personnel.

There are ten truck stations located in Mankato's district with each employing five or six staff. The truck stations are set up to provide support to the district office. The equipment is stored at the stations and the work area is centered around the station, reducing the distance to the work site.

As part of our audit, we selected two truck stations to visit, New Ulm and Le Sueur. We tested inventory records, gasoline usage, and general controls over consumable items. When we arrived at the New Ulm truck station there were no employees present and the building was unsecured. A proper system for safeguarding assets is to have all buildings locked when unattended. Without proper security, the likelihood of assets being lost or stolen is increased.

RECOMMENDATION:

3. *All truck stations should be properly secured when unattended by authorized personnel.*



MINNESOTA DEPARTMENT OF TRANSPORTATION

DISTRICT 7

301 SO. VICTORY DRIVE
MANKATO, MINNESOTA 56001

(507) 389-6351

July 15, 1986

Mr. James R. Nobles
Legislative Auditor
Veterans Service Building
St. Paul, MN 55155

Dear Mr. Nobles:

The following is our response to the findings and recommendations in your report of July 1, 1986.

In general, we are very pleased with the results of the Audit for the period July 1, 1984 through June 30, 1985. The District takes great pride in our staff which is responsible for internal accounting controls, financial transactions and consumable inventory records. We shall continue to strive for excellence in these areas.

Findings and Recommendations

Sign Post Control:

Effective September 1, 1986, Mr. Gary Heller, Inventory Control Supervisor will have all new and used sign posts segregated and accounted for separately.

Physical Inventory:

The taking of the Physical Inventory does present some problems due to staff and/or work loads of other units. However, we can no longer accept this as the problem, we have therefore, effective June 11 and 12, 1986 conducted our annual inventory by using several of our shop personnel. All future such inventories will be conducted by personnel other than those who are in custody of the inventory. Mr. Dale Rutzen, Business Manager and Mr. Gary Heller, Inventory Control Supervisor shall in all future inventories select independent participants either from within our staff or seek outside vendors.

Truck Stations:

The attached memo shall serve as our response to this recommendation.

Sincerely,


R. P. Pecore
District Engineer

CC:


Richard P. Braun, Commissioner
John Asmussen, CPA

RPP/DLR/mn

DEPARTMENT Mn/DOT - Mankato Office

*Office Memorandum*TO: All Truck Station Employees
All Area Supervisors

DATE: July 15, 1986

FROM:  R. P. Pecore
District Engineer

PHONE: 389-6868

SUBJECT: Truck Station Security

In the past there was some question about security at Truck Stations. It was pointed out in the latest audit that all truck stations shall be locked when unattended. Therefore, effective immediately it shall be the District's policy that all truck stations will be locked when unattended. This includes all buildings and yard gates.

The Mankato Truck Station is located in the main complex so the buildings and yard are open during normal business hours. All other buildings housing supplies and materials and equipped with locks shall be locked.

This policy is intended to cover all absences from the premises. The buildings and gates are to be locked even during the shortest absences.

It shall be the responsibility of each employee to see that the provisions of this policy are complied with.

It shall be the responsibility of all supervisors to enforce compliance with this policy.

Thank you for your cooperation.

RPP/mn