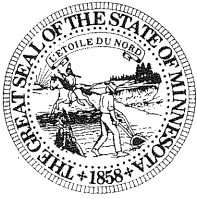


**DEPARTMENT OF TRANSPORTATION
DETROIT LAKES DISTRICT
FINANCIAL AND COMPLIANCE AUDIT
FOR THE PERIOD FROM JULY 1, 1984
THROUGH MAY 30, 1986**

AUGUST 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. Ron Hoffman, District Engineer
Department of Transportation - Detroit Lakes District

Audit Scope

We have completed a financial and compliance audit of the Department of Transportation, Detroit Lakes District, for the period from July 1, 1984 through May 30, 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 June 6, 1986.

The objectives of this audit were to:

- study and evaluate major internal accounting control systems at the Detroit Lakes district in effect as of May 30, 1986, including a review of receipts, administrative expenditures, imprest cash, fixed assets, consumable inventory, and the state sign shop. 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 161, 174, and 360, and other 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 June 4, 1986, the date of the inventory count, as recorded on the Mn/DOT inventory system.

Senator Randolph W. Peterson, Chairman
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Management Responsibilities

The management of the Detroit Lakes 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 Detroit Lakes 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 Detroit Lakes district. The purpose of our testing of transactions was to obtain reasonable assurance that the Detroit Lakes district had, in all material respects, administered their programs in compliance with applicable state laws and regulations.

Conclusions

In our opinion, except for the issue raised in Section II, recommendation 1, and except for payroll which we did not audit, the system of internal accounting control of the Mn/DOT Detroit Lakes District in effect as of May 30, 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 Detroit Lakes District administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

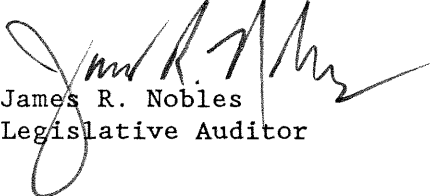
In our opinion, for the period July 1, 1984 through June 30, 1985, the Mn/DOT Detroit Lakes District properly recorded, in all material respects, its financial transactions on the statewide accounting system.

Senator Randolph W. Peterson, Chairman
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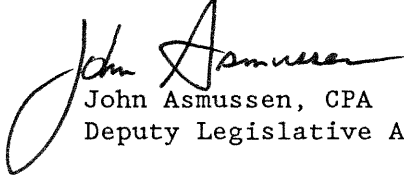
In our opinion, as of June 4, 1986, the Mn/DOT Detroit Lakes District maintained accurate records for consumable inventory, as recorded on the Mn/DOT inventory system.

The recommendation included in this audit report is presented to assist the district in improving accounting procedures and controls. We will be monitoring and reviewing the Detroit Lakes district's progress on implementing this recommendation.

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



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

July 18, 1986

DEPARTMENT OF TRANSPORTATION

DETROIT LAKES 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
Ken Vandermeer, CPA	Auditor-in-Charge
Carl Otto, CPA	Staff Auditor

EXIT CONFERENCE

An exit conference was held with the following staff of the Detroit Lakes district on June 6, 1986:

Ron Hoffman	District Engineer
Dan Swanson	Business Manager
Fern Brown	Office Manager
Bud Wamre	Inventory Supervisor

DEPARTMENT OF TRANSPORTATION

DETROIT LAKES 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 Detroit Lakes Department of Transportation District 4A includes Morris as a subdistrict. The Detroit Lakes district is under the control of a District Engineer.

The receipts of the district come from permits and the sale of scrap material, and are sent to the Central Office for deposit. Fiscal year 1985 receipts from these sources totaled approximately \$43,154. Expenditures of the district are classified as either maintenance operations, district construction, or maintenance preservation. Expenditures for fiscal year 1985 totaled \$7,565,651. Of this amount, personal services comprised 76 percent, supplies and materials comprised 20 percent, and expense and contractual services comprised 4 percent.

DEPARTMENT OF TRANSPORTATION

DETROIT LAKES DISTRICT

II. CURRENT FINDING AND RECOMMENDATION

Automotive supplies are being purchased from a non-state vendor.

The authority for local purchases (ALP) at Mn/DOT Detroit Lakes District is limited to \$100. Purchases exceeding this limit must be with a vendor covered by a state pricing agreement (SPA) or a contract release according to the Department of Administration's Procurement Manual Bulletin No. 7-206. This manual has been established as the authoritative document governing local purchases. Amounts under the \$100 limit must also be purchased from vendors covered by SPA's or contract releases, if possible, according to Section 2.1 of bulletin 7-206 and Statewide Accounting Procedure 06:04:01.

Currently, automotive supplies are being purchased at Detroit Lakes from a vendor not covered by an SPA or contract release. Automotive supplies are covered under SPA's and contract releases though, and should be purchased from state vendors. Although the individual transactions are under the \$100 ALP limit, the total biweekly purchase orders we reviewed ranged from \$250 to \$450. Purchases are concentrated with one local vendor and totaled approximately \$6,000 in fiscal year 1985.

Agency personnel indicated that local purchases may be made several times a day for automotive supplies that are needed on an "immediate need" basis. Section 2.10 of bulletin No. 7-206 does provide for these types of purchases even when an SPA or contract release exists. However, Section 2.10 states, "The quantities purchased shall be confined to just enough to continue operations until a further supply can be obtained through the standard procedures of the Division of Procurement." This statement indicates that "immediate need" purchases are for infrequent occurrences, such as temporary stock-outs, and not for recurring monthly purchases. The state may be losing monies by not purchasing goods through a vendor covered by an SPA or contract release. The large number of purchases from the local vendor indicates that either Detroit Lakes is making more than "immediate need" purchases or that the stock is not being adequately controlled.

RECOMMENDATION:

1. *Mn/DOT Detroit Lakes District should comply with bulletin No. 7-206 or contact the Department of Administration, Division of Procurement, to establish an SPA or contract release for their local automotive supply purchases.*



Minnesota
Department of Transportation
District 4
1000 W. TH. 10, Box 666
Detroit Lakes, Minnesota 56501

(218) 847-1500

July 18, 1986

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

Dear Mr. Nobles:

We have received and reviewed the audit report completed as a result of the audit of the Detroit Lakes District, June 2nd - June 6th, 1986. The audit report states that the District is purchasing automotive supplies from a non-state vendor, A and B Automotive of Detroit Lakes. The District agrees that this is the case and offers the following data:

- A. For Calendar 1985, they purchased \$7,436.00 worth of miscellaneous parts, supplies and materials, approximately \$5,100 of which is for automotive parts.
- B. The \$7,436.00 represents 457 invoices (i.e. trips), 563 different line items (some of which are repeats), and 2,074 total units (average of \$3.59 per unit).
- C. The vendor delivers, free of charge, directly to the stockroom, sometimes several times a day.

Rationale for the above is as follows:

- A. The large majority of the items are immediate need in that there is currently a unit being repaired requiring the part.
- B. To stock the parts would require the addition of the line items mentioned earlier, plus many, many more as we would have to plan for all eventualities. Thus significantly increasing inventory quantities and dollar value.

Mr. Nobles

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C. Since stocking the required parts would prove quite costly, the District feels they are left with three basic choices:

1. Purchase the part from a contract vendor and let the equipment sit a minimum of two days
2. Purchase the parts as in the past
3. To establish a State Price Agreement (SPA) for local automotive purchases

Item '3.' is the preferred choice, and by copy of this memorandum, we are requesting that procurement explore the possibility of an SPA for Detroit Lakes. In order to distribute business more evenly, we would request three vendors be included: A & B Automotive, NAPA Auto Parts, and Eldon's Auto Parts.

Sincerely,

A handwritten signature in cursive script, appearing to read "R.J. McDonald".

R.J. McDonald
Deputy Commissioner