

**DEPARTMENT OF TRANSPORTATION  
MORRIS DISTRICT**

**FINANCIAL AND COMPLIANCE AUDIT  
FOR THE PERIOD FROM JULY 1, 1984  
THROUGH APRIL 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

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Senator Randolph Peterson, Chairman  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Richard P. Braun, Commissioner  
Department of Transportation

Mr. Jerry Miller, Area Maintenance Engineer  
Department of Transportation - Morris District

Audit Scope

We have completed a financial and compliance audit of the Department of Transportation, Morris District, for the period from July 1, 1984 through April 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 13, 1986.

The objectives of this audit were to:

- study and evaluate major internal accounting control systems at the Morris district office in effect as of April 30, 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 161, 174, 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 inventory records were maintained for consumable inventory as of June 12, 1986, the date of the inventory count, as recorded on the Mn/DOT inventory system.

Senator Randolph Peterson, Chairman  
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Mr. Richard P. Braun, Commissioner  
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### Management Responsibilities

The management of the Morris 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 assets 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 procedure may deteriorate.

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

### Conclusions

In our opinion, except for payroll, which we did not audit, and except for the issues raised in Section II, recommendations 1-3, the system of internal accounting control of the Mn/DOT Morris District in effect as of April 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 Morris District administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

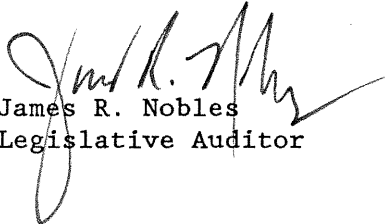
In our opinion, for the period July 1, 1984 through June 30, 1985, the Mn/DOT Morris District properly recorded, in all material respects, its financial transactions on the statewide accounting system.

In our opinion, as of June 12, 1986, the Mn/DOT Morris District maintained accurate inventory records for consumable inventory, as recorded on the Mn/DOT inventory system.

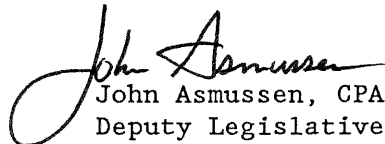
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Section II of this report contains the recommendations we developed during this audit. It is presented to assist you in improving accounting procedures and controls. We will be monitoring and reviewing your progress on implementing these recommendations.

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



James R. Nobles  
Legislative Auditor



John Asmussen, CPA  
Deputy Legislative Auditor

July 30, 1986



DEPARTMENT OF TRANSPORTATION  
MORRIS 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
Sonya Hill	Auditor-in-Charge
Chris Buse	Intern

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following Department of Transportation, Morris District, staff at an exit conference held on June 13, 1986:

Don Goracke	Office Manager
Mike Larson	Inventory Control Supervisor
Connie Tschetter	Senior Accounting Clerk





DEPARTMENT OF TRANSPORTATION  
MORRIS 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 areas which they cover. The Morris Department of Transportation District 4B is a subdistrict of the Detroit Lakes 4A District. The Morris District is under the control of an Area Maintenance Engineer.

The receipts of the district come from permits, and scrap sales of junk batteries, tires, iron and metals. These receipts are sent to the Central Office for deposit. Fiscal year 1985 receipts from these sources totalled approximately \$15,300. Expenditures of the district are classified as either maintenance operations or maintenance preservation. Expenditures for fiscal year 1985 totaled about \$3,500,000. Of this amount, personal services comprised 65 percent, expense and contractural services comprised 9 percent, and supplies and materials comprised 26 percent.

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II. CURRENT FINDINGS AND RECOMMENDATIONS

Cycle counts are being performed by individuals who are not independent of the inventory functions.

Inventory at the Morris district office, valued at about \$600,000, consists of road repair and maintenance supplies such as paint, signs and sign posts, gasoline, and automotive and machinery parts. Inventory is counted on a cycle count basis. Counts are performed weekly by two of the inventory custodians who also purchase, receive, and issue the inventory. Adjustments are made to the Mn/DOT inventory system based on the results of the cycle counts.

Effective internal control provides that individuals, other than those in charge 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.

We understand that due to the nature of the inventory items at Morris, it may be difficult for an independent person to perform the weekly cycle counts of the inventory. Instead someone, possibly from the business office, should accompany the inventory person on their counts at least once a month and spot-check the accuracy of the counts, especially of any sensitive items which may be subject to misuse, such as gasoline and small automotive and machine parts and accessories.

*RECOMMENDATION:*

- 1. The cycle counts of inventory, particularly of the sensitive items, should be spot-checked once a month by someone independent of the inventory function.*

Internal controls over receipts need strengthening.

The Department of Transportation District 4B collects two types of receipts. The first type of receipt is from the issuance of transportation permits. The second form of receipt is from the sale of scrap materials. The combined total dollar amount of receipts for fiscal year 1985 was \$15,289. Of this amount, 95 percent was attributed to transportation permits and 5 percent to scrap sales. Both forms of receipts are recorded on manual accounting records and sent to the Mn/DOT Central Office to be deposited with the Department of Finance. The receipts being remitted are summarized on form TC32 by the district and approved by the office manager. A copy of the TC32 is returned to the district by the Central Office to indicate that the receipts were deposited with the Department of Finance.

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We reviewed the receipt procedures in effect at Morris and identified two internal control weaknesses. First, receipts are not being forwarded to the Central Office on a timely basis. Minn. Stat. Section 16A.275 requires that receipts be deposited when the cumulative total amount of receipts on hand reaches or exceeds \$250. Our testing consisted of three batches of receipts and corresponding documentation forwarded to the Central Office. The amounts that were forwarded ranged from \$1,010 to \$2,335. These batches were forwarded from 6 to 14 business days after the cumulative amount of receipts on hand exceeded the \$250 limit. Further review of receipts indicated that the amounts remitted for deposit consistently exceeded the \$250 limit. Delays in forwarding receipts causes the state to lose investment income as well as increases the chances of loss or theft. To ensure adequate control of the receipts, remittances should be made to the Central Office when the \$250 limit is reached.

Second, the district is not performing a quarterly reconciliation of its receipts with permits issued. An effective system of internal control provides that a periodic reconciliation be performed to ensure that all permits are accounted for and that all receipts from permits issued were deposited properly. According to procedures issued by the Mn/DOT Central Office, effective June 1, 1985, the Area Office Manager is to supervise a continuing audit of pre-numbered transportation permits. A Transportation Permits Audit Statement, signed by the Office Manager and certified by the Area Maintenance Engineer, is to be completed on a quarterly basis. This statement compares the fees charged for permits issued during the period to receipts actually submitted to the Central Office for deposit. This statement also certifies that all permits received and issued are accounted for, and that the remaining numbers of permits on hand are correct. The Morris district is performing only a quarterly inventory of permits on hand. To ensure that all permits are accounted for, the permit audit should include the permits issued, along with the receipts from those issuances.

*RECOMMENDATIONS:*

2. *Receipts should be remitted to the Mn/DOT Central Office for deposit when the cumulative total of receipts on hand reaches or exceeds \$250.*
3. *The quarterly permit audit should conform to the format approved by the Mn/DOT Central Office.*



Minnesota  
Department of Transportation  
610 Highway 9 South, Box 410  
Morris, Minnesota 56267

612-589-1515

July 30, 1986

Mr. James R. Nobles, Legislative Auditor  
State of Minnesota  
Office of the Legislative Auditor  
Veterans Service Building  
St. Paul, MN 55155

Dear Mr. Nobles:

The purpose of this letter is to respond to preliminary audit report and its recommendations for audit control corrections. The following corrections are relative to audit of transactions covered during period July 1, 1984 through April 30, 1986.

Issue: Cycle counts of consumable inventories are being performed by persons who are not independent of the inventory functions.

Corrective Action: We will assign a person independent of the inventory function to oversee the spot-checking activities. This involvement by persons from outside the stockroom unit will be done at least once a month. The independent parties will be members of our business office staff.

Issue: Receipts exceeding \$250 for transportation permit fees are not sent to Mn/DOT Central Office for deposit.

Corrective Action: The business office will prepare and send in receipts of \$250 and greater to Mn/DOT Central Office on the day that collections exceed \$250.

Issue: Previous Quarterly Transportation Sticker Audit Reports did not include the total monies collected during the period.

Corrective Action: Our future quarterly audit reports for this function will include a summary of the fees collected during the covered period of the report.

This concludes the recommendations for correction of audit findings at the Morris District office.

Sincerely,

Robert J. McDonald  
Deputy Commissioner

cc: R. Hoffman  
J. Miller  
D. Swanson  
D. Goracke  
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