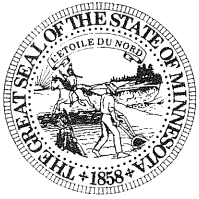


**DEPARTMENT OF TRANSPORTATION
OAKDALE DISTRICT
FINANCIAL AND COMPLIANCE AUDIT
FOR THE PERIOD FROM JULY 1, 1983
THROUGH JUNE 30, 1986**

AUGUST 1987



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Phillip J. Riveness, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Leonard W. Levine, Commissioner
Department of Transportation

Mr. Kermit K. McRae, District Engineer
Department of Transportation - Oakdale District

Audit Scope

We have completed a financial and compliance audit of the Department of Transportation, Oakdale District, for the period from July 1, 1983 through June 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 May 22, 1987.

The objectives of this audit were to:

- study and evaluate major internal accounting control systems at the Oakdale district in effect as of April 30, 1987, including administrative expenditures, payroll, imprest cash, and consumable inventory;
- 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, 1983 through June 30, 1986;
- evaluate the recording and reporting of financial transactions on the statewide accounting system for the period July 1, 1983 through June 30, 1986; and
- determine that accurate records were maintained for consumable inventory as of May 18, 1987, the date of the inventory count, as recorded on the Mn/DOT inventory system.

Representative Phillip J. Riveness, Chairman
Members of the Legislative Audit Commission
Mr. Leonard W. Levine, Commissioner
Mr. Kermit K. McRae, District Engineer
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Management Responsibilities

The management of the Oakdale 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 Oakdale 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 Oakdale district. The purpose of our testing of transactions was to obtain reasonable assurance that the Oakdale 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 1-2, the system of internal accounting control of the Mn/DOT Oakdale District in effect as of April 30, 1987, 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, 1983 through June 30, 1986, the Mn/DOT Oakdale District administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

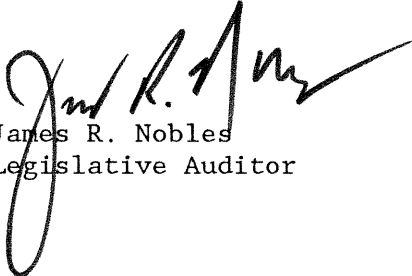
In our opinion, for the period July 1, 1983 through June 30, 1986, the Mn/DOT Oakdale District properly recorded, in all material respects, its financial transactions on the statewide accounting system.

In our opinion, as of May 18, 1987, the Mn/DOT Oakdale District maintained accurate records for consumable inventory, as recorded on the Mn/DOT inventory system.

Representative Phillip J. Riveness, Chairman
Members of the Legislative Audit Commission
Mr. Leonard W. Levine, Commissioner
Mr. Kermit K. McRae, District Engineer
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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 Oakdale district's progress on implementing these recommendations.

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



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

July 23, 1987

DEPARTMENT OF TRANSPORTATION

OAKDALE 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
Colleen Berg	Auditor-in-Charge
Rhonda Warner	Staff Auditor

EXIT CONFERENCE

An exit conference was held with the following staff of the Oakdale district on May 21, 1987:

Kermit K. McRae	District Engineer
Jerry Holland	Business Manager
Tom Bausch	Inventory Supervisor

DEPARTMENT OF TRANSPORTATION

OAKDALE 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 Oakdale Department of Transportation District 9 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 1986 receipts from these sources totaled approximately \$14,382. Expenditures of the district are classified as either maintenance operations or maintenance preservation. Expenditures for fiscal year 1986 totaled \$25,438,000. Of this amount, personal services comprised 78 percent, expense and contractual services comprised 7 percent, and supplies and materials comprised 15 percent.

DEPARTMENT OF TRANSPORTATION

OAKDALE DISTRICT

II. CURRENT FINDING AND RECOMMENDATIONS

Internal controls over consumable inventory needs to be strengthened.

Mn/DOT Oakdale District maintains consumable inventories at the district office and six truck stations. Cycle counts update 200 items in the perpetual inventory records weekly. Truck stations perform cycle counts on their own inventory and the district office performs spot-checks of truck station inventory. An annual physical inventory is conducted under the supervision of the inventory control supervisor for all items at the district office and truck stations. This same individual is responsible for receiving and issuing inventories, maintaining the inventory records, cycle, and annual physical counts.

Effective internal controls provide that individuals, other than those in custody of the inventory and inventory records, should perform the inventory counts. Under the present system, it would be possible for intentional or unintentional errors to be concealed, since those in charge of inventory and records are also conducting the annual counts. If an independent person participates in the annual physical inventory count, the likelihood of errors being concealed decreases.

We understand that due to the nature of the inventory items at Oakdale, it may be difficult for an independent person to perform the physical inventory count. Instead, an employee from the business office should accompany the inventory person during the annual physical inventory counts or perform spot-checks with the inventory person's assistance. The business office employee should also compare the inventory counted to the records, and investigate any discrepancies.

The district office has six fuel tanks. Fuel in the tanks measured during our audit appeared consistent with office records kept for the tanks, except for one tank which measured 124 gallons short of office records. Additional testing found 840 gallons written off over the period July 1, 1986 to May 14, 1987. Two fuel pumps are supplied by this fuel tank. One pump is used daily with usage recorded on the field stock report while the other pump is for emergency purposes and did not have a field stock report.

Inventory items considered to be sensitive need to be carefully counted and recorded. Gasoline is considered a sensitive item which may be subject to misuse. Several possible methods to prevent misuse of sensitive items and proper recording are available, such as more frequent spot-checks, field stock reports for all pumps, or locks preventing unauthorized use. The district may not want to lock the pump used for emergency purposes. However, the field stock report should be completed when gasoline is taken. Also, large or unexplainable discrepancies in any fuel tank readings should be investigated.

DEPARTMENT OF TRANSPORTATION

OAKDALE DISTRICT

RECOMMENDATIONS:

1. Someone independent of the custodial functions should participate in the physical inventory counts, comparing the count to the inventory records and investigating any discrepancies.
2. Mn/DOT Oakdale District should strengthen controls over the gasoline pumps to prevent the unauthorized or unrecorded consumption.



Minnesota Department of Transportation

Transportation Building, St. Paul, MN 55155

Phone (612) 296-8044

July 23, 1987

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

RE: Response to preliminary audit report
Mn/DOT-Oakdale District (July 1, 1983 - June 30, 1986)

Dear Mr. Nobles:

I have received a copy of the referenced audit report, and the following response represents actions agreed to by management of our Oakdale District. I am confident that these actions satisfy resolution of the findings and recommendations outlined in the audit report.

FINDING: Internal controls over consumable inventory needs
to be strengthened.

Response to Recommendation 1: An annual inventory was completed within the Oakdale District during the week of June 1, 1987. During this audit, employees from the business office were paired with inventory personnel to count the items. This practice will continue under the direction of the District Business Manager and Inventory Control Supervisor.

Responsible for implementation: Jerry B. Holland, Business Manager

Projected for completion: Implemented June 1, 1987

James R. Nobles
July 23, 1987
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Response to Recommendation 2: In addition to the recommended procedures as described in the Mn/DOT Materials Management Procedures Manual, Section 3-5-2, the following steps will be taken to strengthen controls over fuel at the Oakdale District:

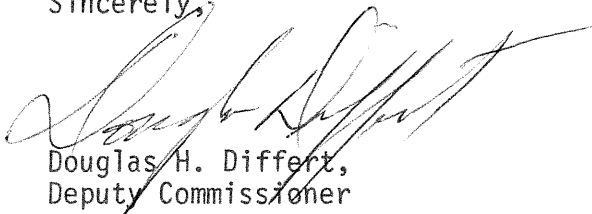
- a) More frequent spot checks will be taken.
- b) Fuel field stock reports will be reviewed/checked daily.
- c) Any discrepancies will be reviewed by the Inventory Control Supervisor

Responsible for implementation: Jerry B. Holland, Business Manager

Projected for completion: Effective immediately

In summary, the actions described above will correct and strengthen the Oakdale District's management of consumable inventory. As noted in a previous preliminary audit response, I have been delegated authority and responsibility for audit accountability by our Commissioner. I look forward to working with your Office in the future.

Sincerely,



Douglas H. Differt,
Deputy Commissioner