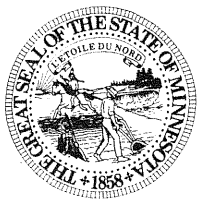

DEPARTMENT OF TRANSPORTATION
BRainerd DISTRICT
FINANCIAL AND COMPLIANCE AUDIT
FOR THE PERIOD FROM JULY 1, 1983
THROUGH JUNE 30, 1986

AUGUST 1987

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

87-43



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. W. N. Yoerg, District Engineer
Department of Transportation - Brainerd District

Audit Scope

We have completed a financial and compliance audit of the Department of Transportation, Brainerd 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 June 5, 1987.

The objectives of this audit were to:

- study and evaluate major internal accounting control systems at the Oakdale district in effect as of May 29, 1987, including a review of administrative expenditures, payroll, imprest cash, and consumable inventory;
- verify that financial transactions were made in accordance with applicable laws, regulations, and policies including Minn. Stat. 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 27, 1987, the date of the inventory count, as recorded on the Mn/DOT inventory system.

Management Responsibilities

The management of the Brainerd 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

Representative Phillip J. Riveness, Chairman
Members of the Legislative Audit Commission
Mr. Leonard W. Levine, Commissioner
Mr. W. N. Yoerg, District Engineer
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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 Brainerd 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 Brainerd district. The purpose of our testing of transactions was to obtain reasonable assurance that the Brainerd 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 Brainerd District in effect as of May 29, 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.

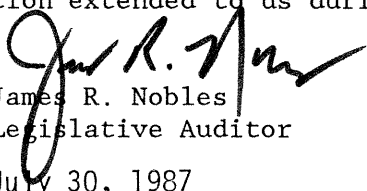
In our opinion, for the period July 1, 1983 through June 30, 1986, the Mn/DOT Brainerd District administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

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


In our opinion, except for the issue raised in Section II, recommendation 2, as of May 27, 1987, the Mn/DOT Brainerd District maintained accurate records for consumable inventory, as recorded on the Mn/DOT inventory system.

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 Brainerd district's progress on implementing these recommendations.

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


James R. Nobles
Legislative Auditor

July 30, 1987


John Asmussen, CPA
Deputy Legislative Auditor

DEPARTMENT OF TRANSPORTATION

BRAINERD 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
Linda Lochner	Staff Auditor

EXIT CONFERENCE

An exit conference was held with the following staff of the Brainerd district on June 5, 1987:

Gerald N. Kreutzer	Assistant District Engineer
Corey Loney	Business Manager
Rick Bailiff	Inventory Supervisor

DEPARTMENT OF TRANSPORTATION

BRAINERD 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 Brainerd Department of Transportation District 3A includes St. Cloud as a subdistrict. The Brainerd 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 1986 receipts from these sources totaled approximately \$5,000. Expenditures of the district are classified as either maintenance operations or maintenance preservation. Expenditures for fiscal year 1986 totaled \$6,930,436. Of this amount, personal services comprised 82 percent, expense and contractual services comprised 4 percent, and supplies and materials comprised 14 percent.

DEPARTMENT OF TRANSPORTATION

BRAINERD DISTRICT

II. CURRENT FINDING AND RECOMMENDATIONS

Control over consumable inventory needs to be strengthened.

Mn/DOT Brainerd maintains consumable inventories at the district office and eight truck stations. Truck stations maintain a small number of consumable inventory items including fuel, blades, and calcium chloride. An annual physical inventory is conducted by the inventory control supervisor and his staff for all items at the district office. They also spot-check the truck station's inventory. These same individuals are responsible for purchasing, receiving, and issuing inventories and maintaining the inventory records.

Effective internal controls provide that at least two individuals 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 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 Brainerd, it may be difficult for an independent person to perform the physical inventory count. Instead, an independent employee should accompany the inventory person during the annual physical inventory counts or perform spot-checks with the inventory person's assistance. This employee should also compare the count to the inventory records and resolve any discrepancies.

We tested several types of inventory items totaling 65 items. Our test consisted of verifying the accuracy of the inventory record amounts to the actual number of items on hand. Our review disclosed variances between the inventory on hand and the consumable inventory records, resulting in a total inventory overstatement of approximately \$3,455 for 23 items tested with a recorded value of \$25,422. The majority of inventory variances were due to inadequate control over issues. Currently, two full-time employees are responsible for inventory receipts and issues and direct supervision of certain inventory issues is not practical. Present procedures state that personnel are required to notify the stockroom of the type and amount of inventory items taken. This procedure is not strictly followed and employees obtain inventory items without informing the stockroom. The majority of the variances found were in areas not directly controlled by the inventory staff.

The Brainerd district maintains inventory outside of the stockroom such as steel, culvert, sign posts, wooden guardrails, and wooden stakes. Steel is stored in a locked shed and personnel must obtain a key from the stockroom before acquiring steel. When the key is returned persons are to inform the stockroom of the type and quantity of inventory taken. Culvert, sign posts, wooden guardrails, and wooden stakes are maintained in

DEPARTMENT OF TRANSPORTATION

BRAINERD DISTRICT

Baxter. This lot has a gate which is locked at night. Currently, employees obtain inventory needed for projects with their supervisor's authorization. Once again, employees are to notify the stockroom of any materials taken. In both areas it appears that the stockroom is not always notified of all inventory items taken. Truck stations maintain blades and calcium chloride on their inventory system. The supervisor's approval is needed to acquire inventory in addition to recording the acquisition to the charge out sheet. The charge out sheet may not always be used, resulting in errors in the inventory records.

Another area not directly controlled by inventory personnel are gasoline pumps. The district office has three fuel tanks. Fuel in two tanks measured during our audit appeared inconsistent with office records kept for the tanks. The regular fuel tank measured 220 gallons under the office records of 6,214 gallons and the gasohol fuel tank measured 438 over the office records of 3,375 gallons. Usage sheets are used to record fuel charges and employees are required to record meter readings, vehicle number, and job costing number when filling gas tanks.

A soundly devised and carefully maintained system of accounting records is necessary to provide reasonable accounting control over consumable inventory. The information retained should provide quality evidence and support for all activities concerning operations. Several options are available to the Brainerd district to ensure inventory record accuracy. For instance, a stock requisition form could be used by employees to request inventory for projects before inventory is issued. Also, a memorandum could be sent to all employees emphasizing the importance of notifying the stockroom when inventory items are taken which would help keep inventory records updated and accurate. Also, frequent spot-checks of inventory and fuel tanks could be applied and any large or unexplainable discrepancies in inventory items and fuel tank readings investigated. The use of these methods would assist in preventing unauthorized or unrecorded consumption of inventory.

RECOMMENDATIONS:

1. Someone independent of the custodian functions should participate in the annual physical inventory, comparing the count with the inventory records and resolving any discrepancies.
2. Mn/DOT Brainerd should strengthen controls for consumable inventory in order to prevent unauthorized or unrecorded consumption.



Minnesota Department of Transportation

Transportation Building, St. Paul, MN 55155

Phone (612) 296-8044

July 30, 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-Brainerd 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 action agreed to by management of our Brainerd District. I am confident that this action satisfies resolution of the finding and recommendations outlined in the audit report.

FINDING: Control over consumable inventory needs to be strengthened

Response to Recommendation 1: Brainerd management has decided to add one more Auto Parts Technician to the Inventory Control complement in order to increase control over consumable inventory. This added position will bring the Inventory Unit full-time staff to three positions (one Inventory Control Supervisor and two Auto Parts Technicians). It is expected that this will allow for performance of all inventory procedures necessary to bring the overall accuracy level to 95%, eliminating the need to perform an annual physical inventory. If it is necessary to perform a physical inventory in the future, an "independent" person will accompany the inventory personnel performing the counts.

Responsible for Implementation: Corey Loney, Business Manager

Projected for completion: Action has already commenced

James R. Nobles
July 30, 1987
Page Two

Response to Recommendation 2: Brainerd personnel are currently in the process of implementing Mn/DOT's policy on inventory security. This action is being done in a participatory manner by involving supervision, office staff, inventory personnel and field personnel. Participation in this manner will help to ensure smooth and consistent implementation of the security policy.

Responsible for implementation: Corey Loney, Business Manager

Projected for completion: Task Force (as indicated above)
has been formed

In summary, Brainerd now has three full-time inventory professionals on their staff. This should resolve the manpower and control problems that they have experienced in the past.

Sincerely,



Douglas H. Differt
Deputy Commissioner