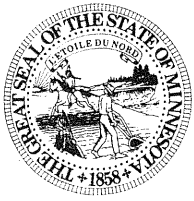

DEPARTMENT OF TRANSPORTATION
ST. CLOUD DISTRICT

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

87-47



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. David Trooien, Area Maintenance Engineer
Department of Transportation - St. Cloud District

Audit Scope

We have completed a financial and compliance audit of the Department of Transportation, St. Cloud 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 St. Cloud district in effect as of March 31, 1987, including a review of receipts, administrative expenditures, payroll, imprest cash, fixed assets, 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 June 5, 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. David Trooien, Area Maintenance Engineer
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Management Responsibilities

The management of the St. Cloud 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 St. Cloud 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 St. Cloud district. The purpose of our testing of transactions was to obtain reasonable assurance that the St. Cloud 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 1-4, the system of internal accounting control of the Mn/DOT St. Cloud district in effect as of March 31, 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, except for recommendation 5, the Mn/DOT St. Cloud district administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations for the period July 1, 1983 through June 30, 1986.

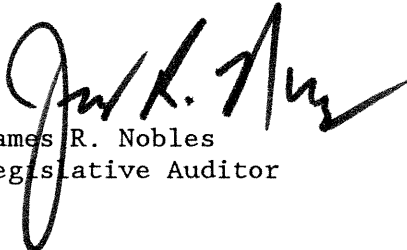
In our opinion, the Mn/DOT St. Cloud district properly recorded, in all material respects, its financial transactions on the statewide accounting system for the period July 1, 1983 through June 30, 1986.

In our opinion, except for the issues raised in recommendation 1, the Mn/DOT inventory system as of June 5, 1987 accurately reflected the inventory balance of the Mn/DOT St. Cloud District.


Representative Phillip J. Riveness, Chairman
Members of the Legislative Audit Commission
Mr. Leonard W. Levine, Commissioner
Mr. David Trooien, Area Maintenance Engineer
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Section II of this audit 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 St. Cloud district staff for the cooperation extended to us during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

August 7, 1987

DEPARTMENT OF TRANSPORTATION

ST. CLOUD DISTRICT

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AUDIT PARTICIPATION

The following members of the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Margaret Jenniges, CPA	Audit Manager
Alan Finlayson, CPA	Auditor-in-Charge
Rhonda Warner	Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the St. Cloud district on June 5, 1987:

David Trooien	Area Maintenance Engineer
Judy Jackson-Melby	Business Manager
Dan Lepinski	Inventory Supervisor
Judy Theisen	Office Supervisor

DEPARTMENT OF TRANSPORTATION

ST. CLOUD DISTRICT

I. INTRODUCTION

The Minnesota Department of Transportation (Mn/DOT) has established nine construction and maintenance districts throughout the state. Six of these districts have a second maintenance district. The St. Cloud district office is a maintenance district for the Brainerd district which is responsible for state and interstate highways in central Minnesota. The office is under the control of an area maintenance engineer who reports to the district engineer. The district has of staff of 147 employees which are located at the St. Cloud office and 11 subdistrict stations.

In fiscal year 1986, the district disbursed \$5.6 million which were classified as either maintenance operations or maintenance preservation. They were comprised of payroll (72%), supplies (23%), and expense and contractual services (5%). The district also maintains approximately \$500,000 of consumable inventory. A small amount of receipts were collected from the sale of permits and scrap material.

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ST. CLOUD DISTRICT

II. CURRENT FINDINGS AND RECOMMENDATIONS

The recordkeeping function needs to be improved for traffic sign materials.

Inventory items are stored in the stockroom, signshop, yard, and truck stations. We performed test counts in each of these areas, and noted recordkeeping errors with traffic sign materials. As of March 31, 1987, the amount of traffic sign materials on the inventory system was approximately \$77,000. Most traffic sign materials are stored separately from the main inventory in the signshop. Sign posts are stored in the yard for efficient accessibility to sign maintenance crews.

The number of signs on hand differed from the amount reported on the consumable inventory system in 10 of 16 test counts. We could not determine the reason for the discrepancies. However, one possibility is the failure to record issues of signs from inventory and returns of used signs to inventory. The sign maintenance supervisor records issues of signs from reports completed by the sign maintenance crews. If a sign is not recorded on this report, the issue will not be recorded. Mn/DOT Materials Management Procedure 3-5-8 allows for the charge out of signs when they are issued from the sign shop. Since the sign supervisor has control of the signs until they leave the signshop, recordkeeping might be improved if issues were recorded at this time.

Sign posts are used daily by the maintenance crews. Because of the large amount of activity, the sign supervisor does not attempt to record issues. Instead, he counts the number of posts in inventory at the end of each month and compares it to the amount at the beginning of the month. If the number of posts has decreased, an issue is recorded for that amount. The sign supervisor reviews the maintenance crews past work schedules to determine if the issue should be charged to a federal or state highway. If there has been a small increase, it is assumed that posts will be used in the next month so no adjustment is made to the inventory system. If a large increase occurred, the posts are reentered into the system.

St. Cloud cannot adequately monitor usage of sign posts with this system. If signs are lost or stolen, it will not be detected because inventory cannot be reconciled to usage reports. If issues were recorded when the posts were placed on the sign trucks, and reentered into the system when they were placed back into inventory, St. Cloud would have a better accounting of sign post usage.

RECOMMENDATION:

1. The St. Cloud district should ensure that issues and returns of traffic signs and related materials are recorded in the inventory system.

DEPARTMENT OF TRANSPORTATION

ST. CLOUD DISTRICT

Security at truck stations needs to be improved.

The St. Cloud district maintains 11 truck stations to provide support to the area maintenance office. Equipment and a small amount of consumable inventory is stored at each station. Employees obtain needed equipment and inventory items in the morning and then travel to the work site.

We tested general controls at three truck stations. When we arrived at the Sauk Centre station, no employees were present and the main gate was unlocked. Although the building was locked, some equipment and inventory items are stored in the yard. These items were subjected to an increased risk of theft and vandalism because the main gate was unlocked. At the Paynesville station, the building was unlocked. Since there is no fence surrounding the property, assets in the building were not secured. A proper system for safeguarding assets is to keep consumable inventory items in secured areas.

RECOMMENDATION:

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

Inventory counts are not performed by individuals independent of inventory functions.

Inventory counts are performed on a cycle count basis by the inventory custodians so that all inventory items are counted at least once during each fiscal year. Adjustments are made to the Mn/DOT inventory system based on the results of the cycle counts.

Effective internal control provides that at least two individuals, perform the inventory counts. Under the present system, there is a greater risk of intentional or unintentional errors going undetected, because those in charge of the inventory and inventory records are also doing the counts and making the adjustments. If an independent person participates in the inventory counts, the likelihood of undetected errors decreases.

We understand that due to the nature of inventory items, it may be difficult for an independent person to perform the monthly counts of inventory. However, controls would be improved if someone independent of the inventory section periodically accompanied the inventory person on the counts and spot-checked the accuracy of the counts, especially of any sensitive items which may be subject to misuse. The employee should also compare the inventory counted to the records and investigate any discrepancies. Having an independent person spot-checking the inventory would reduce the possibility of errors and irregularities going undetected.

RECOMMENDATION:

3. Periodically, someone independent of the inventory and custodial functions should participate in the count of the inventory items.

DEPARTMENT OF TRANSPORTATION

ST. CLOUD DISTRICT

Internal controls over payroll need improvement.

Payroll and related personnel costs are a major expenditure for the St. Cloud district. In fiscal year 1986, \$4.1 million was spent on these costs. Proper authorization and recording of transactions is necessary to control the amount of payroll expenditures.

Payroll Operating Policy & Procedure 07:04:21 requires that time sheets be authorized by supervisors. We noted 11 instances in fiscal year 1987 where a supervisor at the St. Cloud district did not authorize time sheets. Without proper authorization, the St. Cloud district does not have reasonable assurance that the hours recorded on the time sheet represent actual hours worked.

RECOMMENDATION:

4. All time sheets should be signed by the employees's supervisor as required by Payroll Procedure 07:04:21.

St. Cloud did not comply with proper procedures for certain purchased services.

The Department of Administration has the responsibility for supervising, controlling, reviewing, and approving all state contracts and purchases. Bids are solicited for most purchased services to ensure that the state receives the lowest possible price, and to demonstrate to the public that purchases are made without bias. If it is not possible to bid the service, a contract is written with the vendor to establish each party's duties and liabilities, the type of consideration, affirmative action goals, and provide a legal recourse in the event of disputes.

We noted three instances where the St. Cloud district did not comply with the Department of Administration regulations.

- Linen service for the district office was purchased without soliciting bids or establishing a contract. In fiscal year 1986, this service cost \$1,122. Materials Management Bulletin 7-206, issued by the Department of Administration, requires that three bids be obtained for purchases exceeding \$100.
- Sanitation service costing \$1,119 in fiscal year 1986 was purchased for the district office, a truck station, and two roadside parks without bids. The staff stated that bids were not taken because this was the only vendor who would provide the service. Materials Management Bulletin 7-206 does not require bids when the service is only available from one vendor. However, Contract Management Policy and Procedure ADM-188 requires that a contract be written with the vendor.

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ST. CLOUD DISTRICT

- A verbal agreement was made with the City of St. Cloud to lend them equipment in exchange for services such as snow removal. Policy and Procedure ADM-188 also requires that contracts be written for nonmonetary agreements.

RECOMMENDATION:

5. The St. Cloud district should obtain bids and establish contracts for purchased services in accordance with Department of Administration regulations.



Minnesota Department of Transportation

Transportation Building, St. Paul, MN 55155

Phone (612) 296-8044

August 7, 1987

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

RE: Response to preliminary audit report
Mn/DOT-St. Cloud 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 St. Cloud District (Maintenance Area). I am confident that these actions satisfy resolution of the findings and recommendations outlined in the audit report.

FINDING: The recordkeeping function needs to be improved
for traffic sign materials

Response to Recommendation 1: Issues and returns of traffic signs and related materials will be properly recorded in the inventory system. The St. Cloud Area Maintenance Engineer, Administrative Manager, Highway Maintenance Superintendent, Traffic Supervisor and Sign Supervisor will design a reporting system for issues and returns of signs and posts which will ensure adequate accounting of all material.

Responsible for implementation: Joint effort by above-mentioned individuals

Projected for completion: System will be in place by
September 1, 1987

James R. Nobles
August 7, 1987
Page Two

FINDING: Security at truck stations needs to be improved
FINDING: Inventory counts are not performed by individuals
independent of inventory functions

Response to Recommendations 2 and 3: A Task Force has been established, whose task is to formulate an Inventory Security policy for District 3 (Brainerd and St. Cloud). The Task Force consists of inventory personnel and "end-users" of inventory. Their draft policy is due by October 1, 1987 and final policy is expected by November 1, 1987. The policy will address the two findings (above) as well as other aspects of inventory security such as access to inventory locations, who will have keys, and security at remote locations. Utilizing someone independent of the inventory function to participate in the count of inventory items will be addressed in the new inventory security policy.

Responsible for implementation: Task Force as described above

Projected for completion: Final policy expected November 1,
1987

FINDING: Internal controls over payroll need improvement

Response to Recommendation 4: All supervisors have been informed of the need for supervisors signature on all time sheets. St. Cloud has also revised their time sheet transmittal procedures to ensure that these signatures are obtained. Training classes have been established for all employees in October (1987), to review proper procedures including cost accounting coding, which will further ensure compliance with Payroll Operating Policy and Procedure
07:04:21.

Responsible for implementation: Administrative Manager

Projected for completion: Action to ensure compliance
already implemented

James R. Nobles
August 7, 1987
Page Three

FINDING: St. Cloud did not comply with proper procedures
for certain purchased services

Response to Recommendation 5: The above finding noted three instances of alleged non-compliance with Department of Administration regulations. A further review of the finding determined that we are in concurrence with two of the three instances (sanitation service and non-monetary agreements). However, the statement (finding) regarding the Linen Services is incorrect. In this situation, bids were solicited and award made to the lowest bidder, in compliance with (D.O.A.) Materials Management Bulletin 7-206. The remaining two agreements noted in the report have been addressed as follows:

- The St. Cloud Business Office is in the process of entering MR's (Material Request forms) for the garbage pickup service. This effort is to be completed by September 1, 1987 and proper procedures will be adhered to in the future.
- The Highway Maintenance Superintendent will negotiate a contract with the City and/or County for the "service for service" arrangement we currently use. As discussed with Auditor-in-Charge Alan Finlayson, such a contract is acceptable. The St. Cloud District will confer with Mr. Finlayson and/or (D.O.A.) Procurement for appropriate language to be utilized in such contracts. Contracts will be in place by October 1, 1987.

Responsible for implementation: As stated above, for the
Sanitation Service and non-
monetary agreements

Projected for completion: September 1, 1987 and October 1,
1987 respectively

In summary, with the exception of one item under the fifth finding contained in the audit report, we are in concurrence with the noted findings and recommendations. I am confident that the management of the St. Cloud District has taken significant action to ensure that referenced accounting procedures and controls are improved.

Sincerely,



Douglas H. Differt
Deputy Commissioner