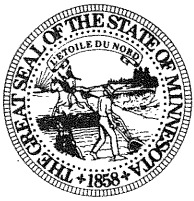


**DEPARTMENT OF TRANSPORTATION  
BEMIDJI AND CROOKSTON DISTRICTS  
FINANCIAL AND COMPLIANCE AUDIT  
FOR THE PERIOD JULY 1, 1984 THROUGH JUNE 30, 1987**

**AUGUST 1988**

Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota





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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Representative Phillip J. Riveness, Chairman  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Leonard W. Levine, Commissioner  
Department of Transportation

Mr. Robert Wolfe, District Engineer  
Department of Transportation - District 2A - Bemidji

Mr. Marvin Bates, Assistant District Engineer  
Department of Transportation - District 2B - Crookston

**Audit Scope**

We have completed a financial and compliance audit of the Department of Transportation, Districts 2A and 2B, for the period from July 1, 1984 through June 30, 1987. Section I provides a brief description of the districts' 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 Government Auditing Standards, 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 27, 1988.

The objectives of this audit were to:

- study and evaluate major internal accounting control systems at Mn/DOT Districts 2A and 2B in effect as of April 30, 1988, 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, and other finance-related laws and regulations for the period July 1, 1984 through June 30, 1987;
- evaluate the recording and reporting of financial transactions on the statewide accounting system for the period July 1, 1984 through June 30, 1987; and
- determine that accurate records were maintained for consumable inventory as of May 6, 1988, 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  
Department of Transportation  
Mr. Robert Wolfe, District Engineer, District 2A-Bemidji  
Mr. Marvin Bates, Assistant District Engineer, District 2B-Crookston  
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### Management Responsibilities

The management of Mn/DOT Districts 2A and 2B 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 Mn/DOT Districts 2A and 2B 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 districts. The purpose of our testing of transactions was to obtain reasonable assurance that the districts 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, findings 1 and 2, the system of internal accounting control of the Mn/DOT Districts 2A and 2B in effect as of May 6, 1988, 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, 1987, except for the issues raised in Section II, finding 2, the Mn/DOT Districts 2A and 2B administered their 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, 1987, the Mn/DOT Districts 2A and 2B properly recorded, in all material respects, their financial transactions on the statewide accounting system.


In our opinion, as of May 6, 1988, the Mn/DOT Districts 2A and 2B 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  
Department of Transportation  
Mr. Robert Wolfe, District Engineer, District 2A-Bemidji  
Mr. Marvin Bates, Assistant District Engineer, District 2B-Crookston  
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This audit report includes both the recommendations developed during this audit and reiteration of our prior audit recommendations which have not yet been resolved. Prior audit recommendations repeated in this report are denoted under the caption "PRIOR FINDING NOT RESOLVED."

The recommendations included in this audit report are presented to assist the districts in resolving the audit findings and in improving accounting procedures and controls. We will be monitoring and reviewing the Districts' 2A and 2B progress on resolving these findings. A summary of the progress made on all audit recommendations discussed in our last audit reports covering the year ended June 30, 1984, dated July 1985, is shown in Section III entitled "Status of Prior Audit Recommendations and Progress Toward Implementation."

We would like to thank the Mn/DOT Districts 2A and 2B staff for the cooperation extended to us during this audit.



James R. Nobles  
Legislative Auditor



John Asmussen, CPA  
Deputy Legislative Auditor

October 4, 1988



DEPARTMENT OF TRANSPORTATION  
BEMIDJI AND CROOKSTON DISTRICTS

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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
Ellen Merlin, CPA	Auditor-in-Charge
Leslie Dosh	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of Mn/DOT Districts 2A and 2B on May 27, 1988:

Leonard Follman	Assistant District Engineer
Virginia Cameron	Administrative Supervisor
Glen Marken	Inventory Control Supervisor





DEPARTMENT OF TRANSPORTATION  
BEMIDJI AND CROOKSTON DISTRICTS

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 Bemidji and Crookston Department of Transportation Districts 2A and B are 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 1987 permit receipts from these sources totaled approximately \$22,700, and \$53,200 for Districts 2A and 2B, respectively. Expenditures of the district offices are classified as either construction, maintenance operations, or maintenance preservation. Expenditures for fiscal year 1987 totaled \$6,511,100 and \$3,550,500, for Districts 2A and 2B, respectively. Of this amount, personnel services comprised 76 percent, expense and contractual services comprised 5 percent, and supplies and materials comprised 19 percent.

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BEMIDJI AND CROOKSTON DISTRICTS

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. PRIOR FINDING NOT RESOLVED: Controls over consumable inventory need to be strengthened.

The Districts 2A and 2B offices of Bemidji and Crookston maintain consumable inventories including fuels, paints, road repair chemicals, automotive parts, and road signs. Inventories are stored at the district offices, as well as 16 truck stations. A sign maintenance supervisor at each of the district offices maintains traffic sign materials, while an inventory control supervisor and two to three staff operate each of the two principal storerooms.

All of the inventory staff are responsible for purchasing, receiving, and issuing inventories, as well as maintaining inventory records. Additionally, the Crookston inventory staff and each of the sign maintenance supervisors complete physical counts for their own areas without any independent spot-check. Normally, under effective internal controls these functions are considered incompatible because employees may be in a position to conceal unintentional or intentional errors. Therefore, each duty is best performed independently to provide assurance that such errors would be detected in the normal course of business.

In some instances, there may be alternate procedures which would mitigate any apparent lack of control. A monthly report is available which compares purchases from the statewide accounting system (SWA) to Mn/DOT inventory records. Additionally, inventory usage reports are available from the Mn/DOT Central Office upon request. At the Bemidji office the reconciliation report is not reviewed by anyone independent of the inventory functions, and neither district office independently analyzes the usage reports for any unusual trends. Independent verification of these reports would provide additional assurance that inventories are adequately safeguarded and accurately reported.

Districts 2A and 2B use the cycle count basis for taking physical inventory. A count schedule is established so that all inventory items are counted at least once during each fiscal year. A monthly analysis of the cycle count, as compared to inventory records, is submitted to the Mn/DOT Inventory Management Unit. If the analyses represent continued acceptable accuracy levels, complete year end physical count requirements may be waived.

The monthly analyses at both the Bemidji and Crookston offices have not, however, included all inventory items. Fuel inventories and cutting edges, while periodically verified, were not incorporated in accuracy level calculations. Furthermore, cutting edges could not be easily located based on available documentation. The Mn/DOT Central Office was not aware that these inventories had not been included in the calculations, and had not approved such exclusions.

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### BEMIDJI AND CROOKSTON DISTRICTS

Additionally, sign post inventory records were not adequately supported at the Crookston office. The sign post piles included various types of signs, some of which had been altered and should have been removed from inventory. Maintenance crews enter the yard and remove or return sign posts without notifying the sign supervisor. A maintenance truck carries sign posts of various sizes to the maintenance areas. While it may be acceptable to keep a small number of posts off the inventory system, no documentation supported the removal of posts from the inventory records or the secured area. Accordingly, it was difficult to reconcile inventory records to the amount of posts on hand.

Another inventory control requires that access to inventory be limited to authorized personnel. At the truck stations, controls should include locking buildings and storage sheds, removing keys from locked vehicles, and turning off fuel pumps. Also, all items carried on the inventory system should have designated areas for storage. Any items removed from those areas should be properly documented. This provides reasonable assurance that assets are properly recorded. Of the four truck stations visited two were unattended, with the following security issues noted:

- Doors had been left unlocked and storage sheds were open.
- Fuel pumps were left on and tanks were not properly padlocked.
- Ignition keys were left in Department of Transportation vehicles.

Such security aids in the prevention of theft or misuse of state assets.

### RECOMMENDATIONS

- The functions of purchasing and perpetual record maintenance should be performed or reconciled by someone independent of inventories.
- Adjustments to inventory records should be properly authorized and documented, and inventory reports should be independently reviewed for unusual inventory transactions.
- Periodically, someone independent of the custodial functions at the Mn/DOT Crookston District should spot-check the physical counts, investigating any discrepancies with inventory records.
- All inventory items should be included in the cycle count analysis at least once a year.
- Controls over Mn/DOT Crookston District sign posts should be strengthened to ensure that inventories are safeguarded and recorded accurately.

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- Security over consumable inventories located at the Mn/DOT Bemidji and Crookston Districts' truck stations should be strengthened to prevent unauthorized access and proper documentation of inventory locations should be maintained.

2. PRIOR FINDING NOT RESOLVED: Permit fee receipts are not adequately safeguarded.

The Mn/DOT controls potential road damage caused by the transport of over-dimensional and overweight loads through the issuance of special permits. Receipts from district office permit sales are remitted to the central office for deposit into the State Treasury.

In accordance with Mn/DOT internal procedures and Minn. Stat. Section 16A.275, agencies shall deposit receipts totalling \$250 or more daily. The Mn/DOT Crookston District office has not, however, forwarded receipts to the Central Office promptly. Of 32 transaction dates, 22 were held at least 3 days and some transfers were held as long as 20 days. The amounts held varied from \$540 to \$5969. Prompt transfer of receipts assures that money held at the district offices is kept to a minimum and interest is earned on receipts collected.

Additionally, the Mn/DOT Bemidji District Office has not routinely kept permit receipts secured. Fees collected in the permit section are delivered to the administrative supervisor for transfer to the central office. Often, these receipts are left unattended in an open mailbox or on the supervisor's desk. Because of this lack of security, there is an increased risk of loss or theft. Therefore, fees should be kept in a locked drawer until proper supervision is available.

RECOMMENDATIONS

- Permit fees in excess of \$250 should be forwarded to the Mn/DOT Central Office promptly.
- Receipts awaiting transfer to the Central Office should be properly safeguarded.

DEPARTMENT OF TRANSPORTATION  
BEMIDJI AND CROOKSTON DISTRICTS

III. STATUS OF PRIOR AUDIT RECOMMENDATIONS  
AND  
PROGRESS TOWARD IMPLEMENTATION

*Mn/DOT District 2A - Bemidji*

Cycle counts are not verified by someone independent of the inventory functions.

1. Periodically someone independent from the inventory and custodial functions should accompany the person performing the cycle counts to perform their own independent verification of "sensitive" inventory items.

RECOMMENDATION IMPLEMENTED. Since July 1985, the office services supervisor performs spot-checks of inventory throughout each year. A report of items counted and any problems identified is submitted to the administrative supervisor.

Cash receipts awaiting deposit are not properly safeguarded.

2. Permit fee receipts awaiting processing and deposit should be properly safeguarded.

RECOMMENDATION NOT IMPLEMENTED. See current finding #2.

During fiscal year 1984, two seasonal employees were directly or indirectly supervised by family members.

3. Family members employed at MN/DOT should not be employed in a direct or indirect staff/supervisory relationship.

RECOMMENDATION IMPLEMENTED. Since July 1985, no employees have been in the position of being supervised by family members.

*Mn/DOT District 2B - Crookston*

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

1. The duties for the person performing the cycle counts should be revised to separate the receiving and issuing functions of inventory from the physical counting of inventory.

RECOMMENDATION NOT IMPLEMENTED. See current finding #1.

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BEMIDJI AND CROOKSTON DISTRICTS

2. The person performing the cycle counts should be responsible for all inventory items.

RECOMMENDATION NOT IMPLEMENTED. See current finding #1.

3. Periodically someone independent from the inventory and custodial functions should accompany the person performing the cycle counts to perform their own independent verification of "sensitive" inventory items.

RECOMMENDATION NOT IMPLEMENTED. See current finding #1.



Minnesota Department of Transportation

Transportation Building, St. Paul, MN 55155

October 4, 1988

Phone 612/296-8044

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

Dear Mr. Nobles:

The purpose of this letter is to provide Mn/DOT's response to the preliminary audit report for the Department of Transportation, Bemidji and Crookston Districts for the period July 1, 1984 through May 27, 1988.

Our response to the findings and recommendations contained in this preliminary audit report are as follows:

Section II. Current Findings and Recommendations

FINDING 1:

We are in agreement with the report, that controls over consumable inventory need to be strengthened.

Response to Recommendations:

- Staff and line supervisors have agreed to review the purchasing and perpetual record maintenance functions and to reassign duties in a manner that provides separation or independent control over each function.
- The administrative supervisor will review all adjustments and inventory reports as they are submitted, from both Bemidji and Crookston.
- The office manager in Crookston will establish and maintain a spot check system similar to the method utilized in Bemidji, including the investigation of any discrepancies between actual counts and inventory records.
- In both Bemidji and Crookston, the Inventory Control Supervisor (ICS) will make sure that all inventory items are included in the cycle count analysis.
- The ICS will consult with the Sign Supervisor and implement a system in Crookston which will adequately secure and control the sign inventory.
- The maintenance engineers, in the form of a memo, will establish a directive to the persons responsible at the Bemidji and Crookston truck stations, on how to provide adequate security at said truck stations. The District is in the process of installing security systems in the truck stations. These systems should provide most of the necessary security measures required.

Mr. James R. Nobles  
October 4, 1988  
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FINDING 2:

We feel that we have now implemented the necessary procedures to ensure adequate safeguarding of permit fee receipts.

Response to Recommendations:

- Additional personnel were recently hired in the Crookston office, which will enable prompt forwarding of fees in excess of \$250.00. This process in both Bemidji and Crookston will be monitored by the Business Manager, to ensure compliance.
- Cash receipts pending transfer will be properly safeguarded as recommended.

III. Status of Prior Audit Recommendations and Progress Toward Implementation


According to the preliminary audit report, all prior recommendations for Bemidji had been implemented, with the exception of recommendation two. Recommendation 2 (regarding permit fees) has now been implemented as noted in Section II, Finding 2, above.

Findings and recommendations contained in this report for Crookston have been resolved and implemented as noted in Section II, Finding 1, above.

In addition to the measures outlined above, the District Engineer for Bemidji and Crookston recently issued a memorandum to all district employees regarding misuse of state property. I am enclosing a copy of this memorandum for your information.

I am confident that the action taken by District 2 in response to this preliminary audit report satisfies the recommendations and will serve to strengthen the accounting procedures and controls. I would also like to apologize for the delay in response to this report. The delay was a result of our internal process for audit response not being followed. I have since issued a reminder to all Mn/DOT divisions to ensure that this does not reoccur.

Sincerely,



Douglas H. Differt,  
Deputy Commissioner

Enclosure: As stated



DEPARTMENT : of Transportation  
Bemidji

STATE OF MINNESOTA

# Office Memorandum

DATE : 9/19/88

TO : All District Two Employees

FROM : R. E. Wolfe *REW*  
District Engineer

PHONE : 755-3815

SUBJECT : Misuse of State Property

We recently discovered that we are missing some used materials that should be in the scrap pile. Even though they were not new items they do have a value and are the property of the State.

We, as employees of Mn/DOT should be concerned with the use of State property, and all of us are responsible for its safe keeping and proper use.

Minnesota Statute 43A.38 Subd. 4 code of ethics for employees in the executive branch addresses the use of State Property: The Statute reads:

"An employee shall not use or allow the use of State time, supplies or State-owned or leased property and equipment for the employee's private interests or any other use not in the interest of the State, except as provided by law."

As you can see the Statute does not exclude anything even if there is no value, and it also prohibits the use of State owned or leased buildings and equipment for employees' private interests.

The Legislative Auditor has issued the following order that is to be followed by public employees:

"All public officials, including their respective deputies, clerks, and employees, whose books, accounts, and affairs are required by the laws of this State to be examined by the Legislative Auditor, shall notify the Legislative Auditor, in writing by mail, of any actual or suspected defalcation, embezzlement, peculation, or misappropriation of public funds or property; any shortage in public funds or property, and any other actual or suspected crimes directly or indirectly affecting the public funds or property. The above persons shall notify local law enforcement agencies of any burglary or robbery. The Legislative Auditor, and, where applicable, the local law enforcement agencies, shall be promptly notified, but in any case, not later than three days following discovery of, or knowledge of any such actual or suspected crime or shortage."

Misuse of State Property

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9/19/88

One of my primary reasons for sending out this memo is to make clear what Mn/DOT's policy is recognizing our ever changing workforce. We want to ensure that our employees do not inadvertently remove State property regardless of value. Please follow the State Statute and the order from the Legislative Auditor's office. Violations in the future will be investigated fully and could lead to serious disciplinary action. If you have any questions, please discuss them with your supervisor.

cc: W. Yoerg  
E. Edman