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

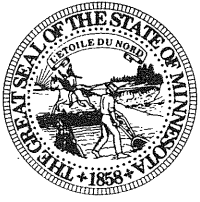
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**SEPTEMBER 1988**

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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. Dave Smilonich, District Engineer  
Department of Transportation - District 6A - Rochester

Mr. Dale Shaw, Area Maintenance Engineer  
Department of Transportation - District 6B - Owatonna

Audit Scope

We have completed a financial and compliance audit of the Department of Transportation, Districts 6A and 6B, 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 6, 1988.

The objectives of this audit were to:

- study and evaluate major internal accounting control systems at Mn/DOT Districts 6A and 6B in effect as of March 31, 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 April 11, 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. Dave Smilonich, District Engineer, 6A-Rochester  
Mr. Dale Shaw, Area Maintenance Engineer, District 6B-Owatonna  
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### Management Responsibilities

The management of Mn/DOT Districts 6A and 6B 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 6A and 6B 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 1-5, the system of internal accounting control of the Mn/DOT Districts 6A and 6B in effect as of March 31, 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, the Mn/DOT Districts 6A and 6B 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 6A and 6B properly recorded, in all material respects, their financial transactions on the statewide accounting system.

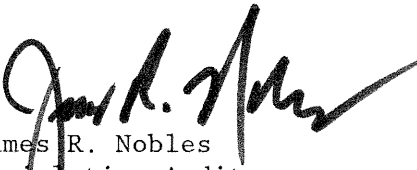
In our opinion, except for the issues raised in Section II, finding 1, as of April 11, 1988, the Mn/DOT Districts 6A and 6B maintained accurate records for consumable inventory, as recorded on the Mn/DOT inventory system.

Representative Phillip J. Riveness, Chairman  
Members of the Legislative Audit Commission  
Mr. Leonard W. Levine, Commissioner  
Department of Transportation  
Mr. Dave Smilonich, District Engineer, 6A-Rochester  
Mr. Dale Shaw, Area Maintenance Engineer, District 6B-Owatonna  
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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" or "Prior Finding Partially Resolved."

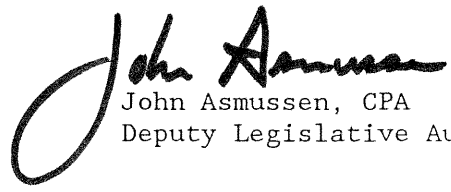
The recommendations included in this audit report are presented to assist the districts in resolving the audit findings and in improving accounting procedures and controls. We will be monitoring and reviewing the districts' progress on resolving these findings. A summary of the progress made on all audit recommendations discussed in our last audit reports for the period July 1, 1983 through April 4, 1985, dated April 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 6A and 6B staff for the cooperation extended to us during this audit.



James R. Nobles  
Legislative Auditor

August 8, 1988



John Asmussen, CPA  
Deputy Legislative Auditor



DEPARTMENT OF TRANSPORTATION  
ROCHESTER AND OWATONNA 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
Kari Bergum, 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 6A and 6B on July 13, 1988:

Richard Klobuchar	Rochester Assistant District Engineer
Lucille Farrell	Rochester Business Manager
Arnold Jorgenson	Rochester Inventory Control Supervisor
Avis Krasovsky	Owatonna Office Manager
Peter Klugherz	Owatonna Inventory Control Supervisor





DEPARTMENT OF TRANSPORTATION  
ROCHESTER AND OWATONNA DISTRICTS

I. INTRODUCTION

The Minnesota Department of Transportation (Mn/DOT) has established nine districts to provide for the construction and maintenance of state and interstate highways. Six of these districts are divided into "A" and "B" districts due to the large geographical area which they cover. The "B" district is considered a sub-district and is under the "A" district office. The Rochester office is an A district office which has Owatonna as its sub-district office. The entire district is under the direction of a district engineer. The Owatonna sub-district is under the direct supervision of the area maintenance engineer. There are 1,676 lane miles within the district.

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 receipts from these sources totaled approximately \$20,000 for Rochester and \$14,000 for Owatonna. Expenditures of the district are classified as either maintenance operations or maintenance preservation. Expenditures for Rochester and Owatonna for fiscal year 1987 totaled \$10,950,497.38 and \$5,837,980.38, respectively. Of this amount for Mn/DOT Rochester, personal services comprised 79 percent, expense and contractual services comprised 4 percent, and supplies and materials comprised 17 percent. Of this amount for Mn/DOT Owatonna, personal services comprised 66 percent, expense and contractual services comprised 7 percent, and supplies and materials comprised 27 percent.

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II. CURRENT FINDINGS AND RECOMMENDATIONS

1. PRIOR FINDING PARTIALLY RESOLVED. Processing inventory records, especially gasoline usage, needs to be improved at the Mn/DOT Owatonna District.

The Mn/DOT district offices and truck stations have gasoline tanks for refueling the trucks and equipment used in their operations. The districts have three types of gasoline: diesel, unleaded/gasohol, and regular. All issues and receipts of gasoline are to be recorded on the Mn/DOT F25-gas usage form. Each time an employee pumps gasoline, he/she is to record the number of gallons pumped and the beginning and ending meter readings on the gasoline usage sheet. The information on this form is then entered onto the Mn/DOT inventory system by the business office personnel.

Truck stations at the Mn/DOT Owatonna District sometimes do not submit their gasoline usage sheets on a timely basis. The gasoline usage sheets should be submitted on a timely basis for entry into the inventory system. Timeliness depends on the number of issuances during the month. If the truck station has few issuances of gasoline for the month, then the sheet can be submitted at the end of the month. For instance, one truck station at Rochester only had eight issuances of gasoline for a month. However, if the truck station has a large volume of gasoline usage, the usage sheets should be submitted at least weekly. Without submitting the sheets for these truck stations on a timely basis, errors or discrepancies could remain undetected.

Discrepancies existed between the amount of gasoline measured and the quantity on hand per the Mn/DOT inventory system in the Mn/DOT Owatonna District. For example, we measured 7,888 gallons of gasohol at Owatonna (in a 12,000 gallon tank) but the calculated balance per the inventory system and F25 forms was 7,216 gallons, a difference of 672 gallons. This error partially resulted because an inventory clerk did not measure the gasoline in the tank for over three months. We also measured 305 gallons of regular gasoline at the Faribault truck station (in a 2,000 gallon tank) but the calculated balance per the inventory system and F25 forms was 402 gallons, a shortage of 97 gallons. We also noted that there were calculation errors in the amount of gasoline recorded as issued to the various vehicles. The number of gallons charged out often did not match the gasoline charged out per the meter readings. For instance, an employee recorded that he had pumped 19 gallons of diesel, but the meter readings showed the use of 52 gallons. As a result, there is an unrecorded issuance of 33 gallons that should have been investigated.

The Mn/DOT Owatonna District should ensure that the truck stations submit their gasoline usage sheets on a timely basis to ensure that errors or irregularities are detected. The longer the error remains undetected, the more difficult it becomes to determine the source of the error. Also, the

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men at the truck stations should be instructed to record the correct usage when pumping gasoline. Someone at the truck station should be reviewing these transactions on a frequent basis.

RECOMMENDATION

- The Mn/DOT Owatonna District should ensure that truck stations submit their gasoline usage sheets on a timely basis, and also review the individual gasoline issuances for accuracy.
2. PRIOR FINDING PARTIALLY RESOLVED. Controls over the safeguarding of inventory at Mn/DOT Rochester and Owatonna District offices needs to be improved.

It is the responsibility of each Mn/DOT district office to ensure that inventory and assets are safeguarded from misplacement or theft. Each district office should develop safeguards that reduce the likelihood of theft or unauthorized use of equipment or supplies. The physical security of inventory and assets at Rochester and Owatonna District offices needs to be improved.

The controls over gasoline pumps should be improved at the truck stations. At the Cannon Falls truck station, we noted that a diesel gasoline pump was not turned off and no employees were on the site. At the St. Charles truck station, the fence surrounding the pumps was not locked and the gasoline tanks were unsecured. No employees were at the truck station. As a result, an unauthorized person could have filled up with gasoline at the pump without detection.

At the Owatonna storeroom, the bin and shelf location codes on the inventory system were inaccurate and in some cases, the shelves were not labeled. Items were rearranged several months ago but the location codes were not revised. Without adequate documentation on location codes, items can be lost or misplaced more easily causing inventory errors to occur. Bin and shelf codes should be accurate so that all inventory items can be easily identified using the Mn/DOT inventory system.

One type of sign post at Owatonna did not agree with the inventory system. There were 200 11 foot, 2½ pound sign posts in the yard. The inventory system had only recorded 100 sign posts resulting in an understatement of \$412 for this item. The sign posts are usually issued from the inventory yard by bundle. This particular type of sign post is in bundles of 50. Even though the bundles had been recorded as issued from the inventory system, there were broken bundles of unneeded sign posts among the bundles of sign posts that had not yet been issued. The person issuing the sign posts did not take all the sign posts from the bundle. As a result, the amount of sign posts on the inventory system did not agree with the actual count of sign posts.

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Inventory counts are less accurate when items issued and those not issued are stored in the same place. There is an increased chance for unissued items being mistaken for issued items and issued goods being mistaken for unissued goods. Owatonna needs to determine whether they are going to issue sign posts by the bundle or by the individual sign post. Once this is determined, all issued sign posts should be kept separately from those still on inventory.

RECOMMENDATIONS

- Truck station employees should verify that all gasoline tanks are padlocked and that all gasoline pumps are turned off when employees are not on the site.
- Bin and shelf location codes on the Mn/DOT inventory system should be updated to reflect accurate inventory locations.
- Once the method of issuing sign posts is determined, issued sign posts should be stored separately from unissued sign posts.

3. PRIOR FINDING NOT RESOLVED. Separation of duties over inventory counts at Mn/DOT Rochester and Owatonna Districts need to be improved.

All Mn/DOT district offices are responsible for safeguarding inventory items and ensuring that inventory records are accurate. The Mn/DOT Owatonna District is required to take an annual inventory count of all inventory on hand. The Mn/DOT Rochester District, exempt from taking an annual inventory, is instead required to take cycle counts during the year. In both cases, the inventory custodians physically count the inventory and determine any adjustments to the Mn/DOT computerized inventory system based on the results of these counts.

Good internal control provides that individuals, other than those in custody of the inventory, should perform the counts. The current system would make it 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.

Due to the nature of the inventory items at Mn/DOT Rochester and Owatonna Districts, it may be difficult for an independent person to perform the counts alone. However, controls would be improved if the inventory counts were done in teams of an independent person plus a custodian. The custodian's primary role in the counts would be to ensure that all inventory items were easily found and properly identified. All discrepancies should be investigated.

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RECOMMENDATION

- Individuals other than the custodians of the inventory, should be responsible for the physical inventory counts and reconciliations at Mn/DOT Rochester and Owatonna Districts.

4. Separation of duties over the payroll and personnel functions need to be improved at the Owatonna District office.

The office manager at the Owatonna District office controls both the payroll and personnel functions. She approves and signs both the biweekly certification report for payroll and the personnel forms. She also occasionally enters the data from the biweekly timesheets into the payroll system.

The certification report certifies that the number of hours worked by each employee was entered correctly into the payroll system. The personnel forms, EAF's and PAF's, are authorized each time a change occurs in employee status. The forms are then sent to the Department of Employee Relations for entry into the system.

A strong system of internal accounting control provides independent verification or authorization of accounting data. To adequately separate the personnel and payroll functions, another person such as the area maintenance engineer, should approve either the personnel or the payroll documents. Without this separation of duties, intentional or nonintentional errors could remain undetected.

RECOMMENDATION

- Duties at the Mn/DOT Owatonna District office should be segregated so that one person does not authorize both the biweekly certification reports and the personnel forms.

5. The deposits for utility permits at the Mn/DOT Owatonna District office are not adequately safeguarded.

The Mn/DOT district offices are responsible for collecting deposit checks for utility permits from various vendors. Utility permits are used when a vendor needs to work on projects that affect Mn/DOT property. For example, a city would need to obtain a permit in order to dig up a highway to install a drainage system. When the project is completed, the money is returned to the vendor.

The deposit checks or bonds are not adequately safeguarded. Mn/DOT Owatonna District keeps the checks, money orders, or security bonds in an

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unlocked desk drawer during office hours. After hours, the deposit money is locked in a desk drawer. About \$45,000 in deposits was stored in an unlocked file drawer.

Without adequately safeguarding the deposit money in a safe or other secured area, the checks could be stolen or misplaced. The deposit money should be secured in a locked safe or lock box at all times.

RECOMMENDATION

- The deposit money for utility permits should be stored in a locked area at all times.

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III. STATUS OF PRIOR AUDIT RECOMMENDATIONS  
AND  
PROGRESS TOWARD IMPLEMENTATION

*Mn/DOT - Rochester District*

Issuances of steel are not being properly recorded on the MN/DOT consumable inventory system.

1. Controls should be established to insure that all usages of steel are recorded on form F25 and the inventory system.

RECOMMENDATION IMPLEMENTED. Currently, the welder and bridge crew foremen must check out issuances of steel through the stockroom. The stockroom employees are responsible for completing F25's to enter into the inventory system. Steel is now locked in a separate building so that unauthorized personnel do not have easy access to steel. Steel is charged out by the foot.

2. The steel should be included in the annual inventory of all consumable inventory items.

RECOMMENDATION IMPLEMENTED: Since calendar year 1985, steel has been included in the cycle count of inventory. The Mn/DOT Rochester District became exempt from annual inventories in May 1985 because they met the Department of Administration's 95 percent accuracy rate criteria on inventory counts.

*Mn/DOT - Owatonna District*

Gasoline reconciliations need to be done on a regular schedule.

1. Owatonna DOT district office and truck stations should reconcile gasoline on hand to the inventory system once a week.

RECOMMENDATION IMPLEMENTED. Each week before the auto parts technician submits the gasoline usage sheets for entry onto the inventory system, he verifies additions and subtractions and the meter reading computations on the gasoline sheets. He then compares the gasoline sheet balances to the inventory system balances. Every month the dipstick readings of the gasoline tanks are reconciled to the inventory system.

2. Owatonna DOT should establish written procedures for the gasoline reconciliation process.

RECOMMENDATION IMPLEMENTED. Written procedures for the gasoline reconciliation process have been addressed in the July 1986 Mn/DOT Materials Management Procedures Manual.

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3. A new F25 form should be placed at each gasoline pump daily and the correct "current date" should be entered, from these forms, onto the Mn/DOT inventory system to accurately record each receipt and issue.

RECOMMENDATION WITHDRAWN. The correct "current date" is important only at fiscal year end.

Control over sign posts needs to be improved.

4. Owatonna District should establish a system which would adequately identify all sign posts.

RECOMMENDATION IMPLEMENTED. Currently, the Owatonna District has sign posts arranged in the yard according to length and weight. Each sign post category is labeled for easy referral.

5. All used sign posts in the Owatonna District yard should be accounted for on the Mn/DOT inventory system.

RECOMMENDATION PARTIALLY IMPLEMENTED. Any usable sign posts are now re-entered onto the inventory system. However, sign posts that are issued from the inventory piles are not always separated from the inventory items being carried on the inventory system. See current finding #2.

Independent persons should assist in the annual inventory count.

6. Individuals, other than the custodians of the inventory, should be responsible for the physical inventory counts at Mn/DOT Owatonna District office.

RECOMMENDATION NOT IMPLEMENTED. See current finding #3.



DEPARTMENT : of Transportation - Operations  
Rochester - District 6

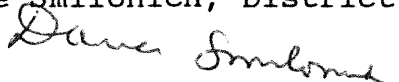
STATE OF MINNESOTA

# Office Memorandum

DATE : August 8, 1988

TO : Douglas Differt, Deputy Commissioner  
(Room 408)

FROM : Dave Smilonich, District Engineer



PHONE : 507/285-7374

SUBJECT : Preliminary Audit Report  
Rochester and Owatonna - District 6

The Business Office and Stockroom personnel from Rochester and Owatonna have reviewed the preliminary audit report prepared by the Office of the Legislative Auditor regarding the financial and compliance audit completed in April and May, 1988.

We offer the following comments to the findings and recommendations of the report:

## II. Current Findings and Recommendations

### 1. Processing of inventory records.

Inventory Control Supervisors at both Owatonna and Rochester are to send a memorandum to all Highway Maintenance Supervisors and truck stations to review procedures for submitting gasoline and diesel fuel usage sheets on a timely basis. They will be advised to submit them weekly if a large volume of fuel is used and to submit a report at the end of each month for each location. All tanks will be measured at the end of each month, as well as before and after a delivery of fuel is made. We will request each truck station to designate an employee to be responsible for checking calculations on the record sheets and measuring the tanks before the records are submitted. This reminder will be sent out by August 15, 1988. The Office and/or Business Managers will check the records in early September to see that this has been done.

2. Controls over the safeguarding of Inventory needs to be improved.

Inventory Control Supervisors at both Owatonna and Rochester will contact the Highway Maintenance Supervisors by August 15, 1988, and provide them with padlocks for all fuel tanks that do not already have them. They will be notified that they must keep pumps turned off when employees are not on the site. When Inventory personnel make inventory checks at the truck stations during the year, they will check for compliance.

The bin and shelf location code differences on the inventory system at Owatonna resulted when they remodeled the storeroom. They have been working on changing the locations on the inventory system but it has not been a high priority item because of the work load in the Stockroom and they did not feel it was causing any problems. It will be much easier and faster to make these changes when the new inventory system is implemented and they will work to get all changes made within the next year. (Owatonna is presently getting set up to be the pilot area for the new system).

The Owatonna stockroom has elected to issue sign posts by bundles. By October 31, 1988 they will get all partial bundles moved and stored in a separate location.

3. Separation of duties over inventory counts.

We disagree with the recommendation of the Audit Office on this item. With the limited number of employees in the Stockroom it would be very difficult, if not impossible, to have an independent person perform all inventory counts alone. Both offices will, however, attempt to improve controls by using hourly laborers, business office personnel or borrow an employee from Maintenance to work with Stockroom personnel when inventory counts are done. Both offices have already started doing this.

4. Separation of duties over the payroll and personnel functions.

Effective immediately the Area Maintenance Engineer at Owatonna will sign the biweekly certification report and the Office Manager will sign the personnel forms. In the absence of either of these employees the Transportation Business Manager from Rochester will sign the forms.

5. Safeguarding of deposits for utility permits.

The utility permit deposits at the Owatonna office have been move to a file cabinet that is kept locked at all times. It should be noted that these deposits are certified checks or bonds. There is no cash involved.

### III. Status of Prior Audit Recommendations.

1. Issuances of Steel at Rochester District.

Prior recommendations were implemented as indicated and are being followed.

- 1,2 & 3. Gasoline reconciliations.

Prior recommendations have been implemented and continue to be followed. Owatonna sent documentation to Audit Office to show that they do use the current date.

- 4 & 5. Control over Sign Posts.

Refer to Current Findings - Item #2. This should be completed by October 31, 1988.

6. Independent persons should assist in Annual Inventory Count.

Refer to Current Findings - Item #3. Rochester and Owatonna have started using independent persons to do inventory counts.

DS:LF:dh

cc: Dale Shaw  
Avis Krasovsky  
Lucille Farrell  
File