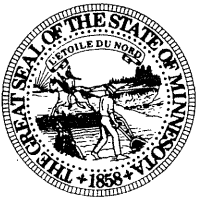


**DEPARTMENT OF TRANSPORTATION  
MANKATO AND WINDOM DISTRICTS  
FINANCIAL AND COMPLIANCE AUDIT  
FOR THE THREE YEARS ENDED JUNE 30, 1988**

**MAY 1989**





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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Senator John E. Brandl, Chairman  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Leonard W. Levine, Commissioner  
Department of Transportation

Mr. Robert Pecore, District Engineer  
Department of Transportation - District 7A, Mankato

Mr. Andrew Sotebeer, Area Maintenance Engineer  
Department of Transportation - District 7B, Windom

**Audit Scope**

We have completed a financial and compliance audit of the Department of Transportation (Mn/DOT), Districts 7A and 7B, for the three years ended June 30, 1988. Section I provides a brief description of the districts' activities and finances. Our audit was made in accordance with generally accepted audit standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office Government Auditing Standards, and accordingly, included such audit procedures as we considered necessary in the circumstances.

**Internal Accounting Control Systems**

One objective of this audit was to study and evaluate major internal accounting control systems; payroll, administrative disbursements, consumable inventory, and receipts, at Mn/DOT Districts 7A and 7B, in effect as of February 1, 1989.

The management of Mn/DOT Districts 7A and 7B 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 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 the 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.

Senator John E. Brandl, Chairman  
Members of the Legislative Audit Commission  
Mr. Leonard W. Levine, Commissioner  
Mr. Robert Pecore, District Engineer  
Department of Transportation - District 7A, Mankato  
Mr. Andrew Sotebeer, Area Maintenance Engineer  
Department of Transportation - District 7B, Windom  
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### Finance-Related Legal Provisions

Another objective of this audit was to verify that financial transactions were made in accordance with significant finance-related laws. The Department of Transportation is governed generally by Minn. Stat. Chapters 160-167, 169, 173, and 174. The districts follow procedures as directed by the central office. The districts issue special vehicle permits in accordance with Minn. Stat. Sections 169.80, 169.86, and 169.862.

The districts are subject to certain general legal provisions which affect the financial management of most state agencies. Minn. Stat. Section 16A.17 requires that funds be encumbered before an obligation is incurred. Minn. Stat. Section 16A.41 requires that goods and services are received prior to payment, and Section 16A.124 requires that payments to vendors be made promptly. Minn. Stat. Sections 43A.07-.08 provide the authority for classification of employees and salary changes as negotiated with the various bargaining units. Bargaining unit contracts and plans applicable to the districts include MAPE, AFSCME, MGEC, the Managerial Plan, and the Commissioner's Plan. State payroll is prepared in accordance with Minn. Stat. Section 16A.17.

The management of the Mn/DOT Districts 7A and 7B is responsible for the districts' 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 the aforementioned laws and regulations.

### Conclusions


In our opinion, the Mn/DOT Districts 7A and 7B systems of internal accounting control in effect on February 1, 1989, taken as a whole, were 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.

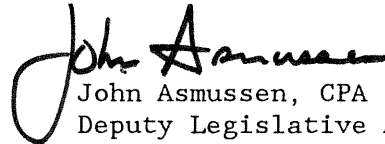
Section II, finding 1, represents a weakness in the districts' consumable inventory controls. We believe the weakness subjects district 7B to an unnecessary financial risk and should be corrected. Progress on resolving this finding will be reviewed next year.

The results of our testing of transactions and records indicate that the Mn/DOT Districts 7A and 7B complied with the aforementioned finance-related legal provisions. Nothing came to our attention in connection with our audit that caused us to believe that the Mn/DOT Districts 7A and 7B were not in compliance with other applicable legal requirements.

Senator John E. Brandl, Chairman  
Members of the Legislative Audit Commission  
Mr. Leonard W. Levine, Commissioner  
Mr. Robert Pecore, District Engineer  
Department of Transportation - District 7A, Mankato  
Mr. Andrew Sotebeer, Area Maintenance Engineer  
Department of Transportation - District 7B, Windom  
Page 3

We would like to thank the Mn/DOT Districts 7A and 7B staff for their cooperation during this audit.

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

END OF FIELDWORK: March 2, 1989

REPORT SIGNED ON: May 24, 1989



DEPARTMENT OF TRANSPORTATION  
MANKATO AND WINDOM DISTRICTS

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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
Patrick Ryan	Auditor-in-Charge
Connie O'Brien	Staff Auditor

EXIT CONFERENCE

The finding and recommendation in this report was discussed with the following staff of the Mn/DOT Districts 7B on March 3, 1989 at Windom:

David Enfield	Office Manager
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## DEPARTMENT OF TRANSPORTATION

### MANKATO AND WINDOM DISTRICTS

#### I. INTRODUCTION

The Minnesota Department of Transportation has established nine "A" district and seven "B" district offices to provide for the construction and maintenance of state and interstate highways. Seven of the districts have subdistrict maintenance offices due to the large geographical area which they cover. The Mankato and Windom Department of Transportation Districts 7A and 7B are under the control of a district engineer.

The receipts of the districts come mainly from the issuance of permits, the sale of scrap material, and van pool receipts, and are sent to the central office for deposit. Fiscal year 1988 receipts from these sources totaled approximately \$21,565 at the Mankato office and approximately \$16,715 at the Windom office. Expenditures of the districts are classified as either maintenance operations or construction. The Mankato office had total expenditures of \$10,000,000 in fiscal year 1988, with maintenance operations comprising 60 percent of the expenditures and construction 40 percent. The Windom office had total expenditures of about \$5,000,000 in fiscal year 1988, for maintenance operations.

DEPARTMENT OF TRANSPORTATION

MANKATO AND WINDOM DISTRICTS

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. Inventory counts are not independently verified at Windom.

The Windom office has about \$400,000 of inventory which is counted on an annual basis. Counts are performed by two individuals involved in the purchasing, receiving, and issuing of the inventory. Adjustments are approved by management and made to the inventory system based on the results of the count.

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

We understand that due to the nature of the inventory items it may not be prudent to have independent employees perform the counts on their own. However, controls would be improved if someone independent of the inventory section participated in the counts, especially of any sensitive items which may be subject to misuse. The Mankato District utilizes maintenance shop employees to assist in the inventory counts.

The independent employee should also compare the inventory counted to the records, and investigate any discrepancies. Having an independent person spot-check the inventory would reduce the possibility of errors and irregularities going undetected.

RECOMMENDATION

- Someone independent of the inventory and custodial functions should participate in the annual physical inventory at the Windom subdistrict office.



## MINNESOTA DEPARTMENT OF TRANSPORTATION

### DISTRICT 7

501 SO. VICTORY DRIVE, BOX 4039

MANKATO, MINNESOTA 56001-4039

May 15, 1989

(507) 389-6351

Office of the Legislative Auditor  
1st Floor Veterans Service Building  
20 West 12th Street  
St. Paul, MN 55155

Attention: Mr. James R. Noble  
Legislative Auditor

Dear Mr. Noble:

District 7 Mankato/Window has received the preliminary Audit Report dated April 26, 1989. This letter will serve as our response to the findings, conclusions and recommendations.

The District was very happy to cooperate during this audit and we too would like to thank the audit participants who conducted the audit. They were very professional and courteous and conducted the audit with little or no inconvenience to the workers around them. They maintained their assigned work areas very neatly and all documents used were returned to their respective files.

The Audit Report shows that in the opinion of the auditors that District 7 provided a reasonable amount of internal accounting control to safeguard assets from loss by unauthorized use or disposition.

The "B" office has used the same personnel who purchase, receive and issue to perform annual counts. Since this provides a greater risk for intentional or unintentional errors going undetected it is the recommendation of the auditor to use someone independent of the inventory and custodial functions.

Effective May 17 and 18, 1989 the annual count will be performed by several Highway Maintenance Workers from Worthington and Window. This shall also be the case on all future annual counts.

Sincerely,

Douglas H. Differt  
Deputy Commissioner and Chief Engineer

pc:

Senator John E. Brandl, Chairman-Audit Commission  
Mr. Leonard Levine, Commissioner of Transportation  
R. P. Pecore, District 7  
J. W. Swanson, District 7  
M. E. Sheldrup, District 7  
A. L. Sotebeer, District 7