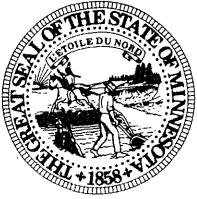


**DEPARTMENT OF TRANSPORTATION
DETROIT LAKES AND MORRIS DISTRICTS
FINANCIAL AND COMPLIANCE AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1988**

JULY 1989



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator John E. Brandl, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Leonard W. Levine, Commissioner
Department of Transportation

Mr. Ronald Hoffman, District Engineer
Department of Transportation - District 4A, Detroit Lakes

Mr. Jerry Miller, Assistant District Engineer
Department of Transportation - District 4B, Morris

Audit Scope

We have completed a financial and compliance audit of the Department of Transportation (Mn/DOT), Districts 4A and 4B, 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 4A and 4B, in effect as of May 15, 1989. Consumable inventory records were tested for accuracy as of May 9, 1989.

The management of Mn/DOT Districts 4A and 4B 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.

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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 duties and powers of the Department of Transportation are prescribed by Minn. Stat. Section 174.03. 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.15, Subd. 3 requires that funds be encumbered before an obligation is incurred. Minn. Stat. Section 16A.41, Subd. 1 requires that goods and services are received prior to payment, and Section 16A.124, Subd. 3 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.

The management of the Mn/DOT Districts 4A and 4B 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 the the districts had, in all material respects, administered their programs in compliance with the aforementioned laws and regulations.

Status of Prior Audit Findings

We have reviewed the status of audit findings included in the District 4A and 4B audit reports issued July 18, 1986 and July 30, 1986 respectively. District 4A's audit report contained one recommendation which is in the process of being implemented. The district has been working with the Department of Administration to establish an acceptable purchasing arrangement for local automotive suppliers. District 4B's audit report contained three recommendations which have been resolved.

Conclusions

In our opinion, the Mn/DOT Districts 4A and 4B systems of internal accounting control in effect on May 15, 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.


Senator John E. Brandl, Chairman
Members of the Legislative Audit Commission
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Department of Transportation - District 4A, Detroit Lakes
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Department of Transportation - District 4B, Morris
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Section II, finding 1, represents a weakness in the district's consumable inventory controls. We believe the weakness subjects district 4B to an unnecessary financial risk and should be corrected. Progress on resolving this finding will be reviewed next year.

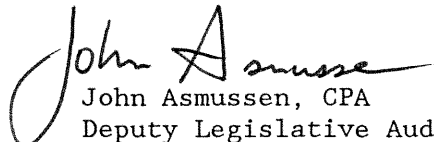
In our opinion, as of May 9, 1989, the Department of Transportation - District 4A and 4B maintained accurate records for consumable inventory, as recorded on the Mn/DOT inventory system.

The results of our testing of transactions and records indicate that the Mn/DOT Districts 4A and 4B 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 4A and 4B were not in compliance with other applicable legal requirements.

We would like to thank the Mn/DOT Districts 4A and 4B staff for their cooperation during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: MAY 26, 1989

REPORT SIGNED ON : July 28, 1989

DEPARTMENT OF TRANSPORTATION
DETROIT LAKES AND MORRIS DISTRICTS

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AUDIT PARTICIPATION

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

John Asmussen, CPA	Deputy Legislative Auditor
Margaret Jenniges, CPA	Audit Manager
Marla Conroy, CPA	Auditor-in-Charge
Beth Hammer	Staff Auditor

EXIT CONFERENCE

The finding and recommendation in this report was discussed with the following staff of the Mn/DOT Districts 4A and 4B on May 26, 1989 at Morris:

Ronald Hoffman	District Engineer
Dan Swanson	Business Manager, District 4A
Jerry Miller	Assistant District Engineer
Don Goracke	Office Manager, District 4B
Mike Larson	Inventory Control Supervisor
Connie Tschetter	Senior Account Clerk

DEPARTMENT OF TRANSPORTATION
DETROIT LAKES AND MORRIS DISTRICTS

I. INTRODUCTION

The Minnesota Department of Transportation has established nine "A" districts 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 geographic area which they cover. The Detroit Lakes and Morris Department of Transportation Districts 4A and 4B are under the control of the district engineer.

The receipts of the districts are mainly from the issuance of permits and the sale of scrap material which are sent to the central office for deposit. Expenditures of the districts are classified as either maintenance operations or construction. The Detroit Lakes office had total expenditures of \$8,000,000 in fiscal year 1988, with maintenance operations comprising 65 percent of the expenditures and construction 35 percent. The Morris office had total expenditures of \$3,600,000 in fiscal year 1988, for maintenance operations.

DEPARTMENT OF TRANSPORTATION
DETROIT LAKES AND MORRIS DISTRICTS

II. CURRENT FINDING AND RECOMMENDATION

1. The Morris district does not use inventory requisition forms.

The Morris district does not have adequate documentation to support the usage and legitimacy of inventory items issued. Morris personnel do not use requisition forms when obtaining items from inventory. Requisition forms provide information regarding who requested and received inventory items. In addition, requisition forms provide supervisors with a means to check the type and frequency of items issued from inventory. The preparation and monitoring of inventory requisitions strengthen the controls over consumable inventory. A strong internal control environment helps safeguard assets from loss or misuse.

Morris district maintained a consumable inventory valued at \$794,000 as of May 26, 1989. The staff now go to the inventory center and ask for the items needed. The inventory control supervisory contacts the proper supervisor when requests involve nonroutine items. However, the supervisor is not contacted for routine items. Inventory center staff record issuances on an Inventory Usage (F25) form. The business office receives these forms and inputs the information onto the inventory system. The present system does not provide documentation of who requested and received inventory items. Nor does the present system provide supervisors with a mechanism to check the propriety of inventory issuances.

Staff should prepare requisitions with the supervisors periodically reviewing them for appropriateness. The preparation and review of requisitions would help prevent and detect any irregularities. Periodic review by supervisors of those items routinely requested would ensure the appropriateness of inventory usage. Supervisors should prepare the requisitions for nonroutine items. The requisitions would also benefit the inventory center staff when reconciling inventory system balances to actual counts. The requisitions would be another document to aid in the reconciliation of system balances to actual counts.

RECOMMENDATION

- Morris district personnel should complete inventory requisition forms. Supervisors should periodically review the requisitions to ensure that items requested are appropriate.



Minnesota Department of Transportation
Transportation Building, St. Paul, MN 55155



July 24, 1989


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

Dear Mr. Nobles:

The Detroit Lakes and Morris Offices have reviewed the results of the audit performed on May 15, 1989, through May 26, 1989. The audit report, Section II, Finding 1, recommends the Morris personnel complete inventory requisition forms prior to their receiving materials and supplies from inventory. Preparation of the requisitions would aid Morris inventory personnel in preventing and detecting irregularities, as well as allow supervisory personnel to periodically review items being charged out.

The Morris Management and Inventory personnel have discussed the above recommendations and are taking steps for implementation. Employees will be required to complete a requisition prior to their receipt of materials and supplies, and the supervisors given copy of same. Don Goracke, of the Morris office, will be responsible for the implementation, anticipated to be on or about September 1, 1989.

Sincerely,


Douglas H. Differt
Deputy Commissioner