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

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**AUGUST 1989**

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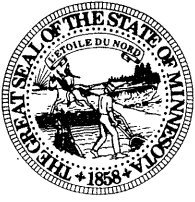
**Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota**

**89-66**

Veterans Service Building, Saint Paul, Minnesota 55155 • 612/296-4708

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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. John Sandahl, District Engineer  
Department of Transportation - District 1A, Duluth

Mr. David S. Ekern, Assistant District Engineer  
Department of Transportation - District 1B, Virginia

**Audit Scope**

We have completed a financial and compliance audit of the Department of Transportation (Mn/DOT), Districts 1A and 1B, 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, and consumable inventory, at Mn/DOT Districts 1A and 1B, in effect as of June 19, 1989. Consumable inventory records were tested for accuracy as of June 15, 1989.

The management of Mn/DOT Districts 1A and 1B 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. John Sandahl, District Engineer  
Department of Transportation - Districts 1A Duluth  
Mr. David S. Ekern, Assistant District Engineer  
Department of Transportation - District 1B, Virginia  
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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 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. Requirements for competitive bidding procedures and the awarding of bids are stated in Minn. Stat. Sections 168.07, Subds. 1 and 4, and 16B.09, Subd. 1. 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 1A and 1B 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.

### Status of Prior Audit Findings

We have reviewed the status of audit findings included in the District 1A audit report issued July 18, 1986. District 1A's audit report contained one recommendation which has been resolved.

### Conclusions

In our opinion, the Mn/DOT Districts 1A and 1B systems of internal accounting control in effect on June 19, 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.

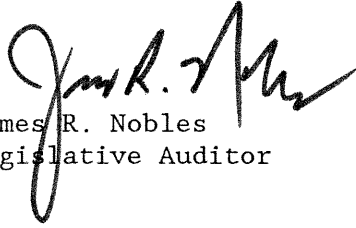
Senator John E. Brandl, Chairman  
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Department of Transportation - District 1A, Duluth  
Mr. David S. Ekern, Assistant District Engineer  
Department of Transportation - District 1B, Virginia  
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Section II, finding 1, represents a weakness in District 1B's consumable inventory controls. We believe the weakness subjects District 1B to an unnecessary financial risk and should be corrected. Progress on resolving this finding will be reviewed next year.

In our opinion, as of June 15, 1989, the Department of Transportation - Districts 1A and 1B 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 1A and 1B 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 1A and 1B were not in compliance with other applicable legal requirements.

We would like to thank the Mn/DOT Districts 1A and 1B staff for their cooperation during this audit.

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

END OF FIELDWORK: June 29, 1989

REPORT SIGNED ON : August 24, 1989



DEPARTMENT OF TRANSPORTATION  
DULUTH AND VIRGINIA 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
Sandra Linn	Auditor-in-Charge
Lois McGuire	Staff Auditor

EXIT CONFERENCE

The finding and recommendation in this report were discussed with the following staff of the Mn/DOT Districts 1A and 1B on June 21, 1989, in Duluth and on June 28, 1989 in Virginia:

Jim Laumeyer	Business Manager, District 1A
Rich Running	Inventory Control Supervisor, District 1A
Denise Baublitz	Senior Account Clerk, District 1A
Lyle Herzog	Office Manager, District 1B
Dan Christensen	Inventory Control Supervisor, District 1B
Theda King	Clerk IV, District 1B





DEPARTMENT OF TRANSPORTATION  
DULUTH AND VIRGINIA 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 to serve the large geographic area which they cover. The Duluth and Virginia Department of Transportation Districts 1A and 1B are under the control of the district engineer.

The receipts of the districts, mainly from the issuance of permits and the sale of scrap material, are sent to the central office for deposit. Expenditures of the districts are classified as either maintenance operations or construction. The Duluth office had total expenditures of \$15,700,000 in fiscal year 1988, with maintenance operations comprising 56 percent of the expenditures and construction 44 percent. The Virginia office had total expenditures of \$5,000,000 for maintenance operations in fiscal year 1988.

DEPARTMENT OF TRANSPORTATION

DULUTH AND VIRGINIA DISTRICTS

II. CURRENT FINDING AND RECOMMENDATION

1. The Virginia inventory center and sign shop need better security.

The inventory center and sign shop are not adequately secured or monitored. The inventory center has three staff at the front counter. Individuals requesting items must present authorization before receiving the order. A back door, that is not visible from this area, is left open. This door connects the garage to the storeroom, and individuals working in the garage enter the storeroom through the back door. They often take items from the shelves and then notify inventory personnel of the removal. The sign shop has five entrances, with one door leading directly outside. The doors are locked only at night, although the individual in charge of the shop leaves the area for hours at a time. No one monitors the shop while he is gone. Road crews take the signs needed and sign out the items.

The Mn/DOT-Virginia district is responsible for consumable inventory valued at over \$375,000. The inventory consists of fuel, vehicle parts, hardware, and traffic signs. The traffic signs and posts are valued at approximately \$80,000. According to the Mn/DOT Management Procedures Manual, the district is responsible for providing a secured area for its inventory. The Mn/DOT manual also requires that all unauthorized individuals entering the storage areas be accompanied by inventory center personnel. Not restricting access to the storage areas increases the risk of misplaced or stolen items.

RECOMMENDATIONS

- Access to inventory should be restricted to inventory center personnel.
- The sign shop should be locked when unattended.



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



August 21, 1989

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

RE: Response to District 1 Audit  
June 1989

Dear Mr. Nobles:

This letter is in response to the preliminary audit provided to us on July 31, 1989, by Margaret Jenniges.

The single finding/recommendation recommended a need for better security in the Virginia Inventory Center and the Virginia Sign Shop. While we recognize the need for appropriate security, we note no theft or loss in either of the areas. In addition, our inventory center has consistently exceeded inventory accuracy standards.

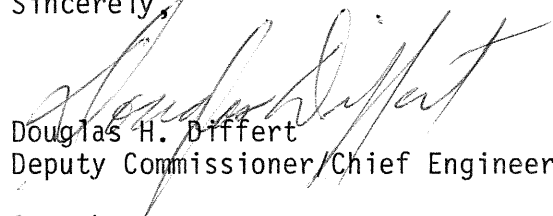
Based on the recommendation, the Inventory Center back door has been locked and access will be controlled through the front door.

The Sign Shop area serves a variety of functions, in addition to storage for sign inventory. These functions include serving as a lunchroom and construction testing lab. Field crews generally pick up signs twice a month from this site. We have written procedures (copy attached) for issuing of signs from inventory if Sign Shop personnel are unavailable. Our inventory accuracy in the Sign Shop has been consistently above 95% for the past three years. In order to totally secure this area at the present time, major building changes would be needed or numerous keys issued to provide access to construction employees utilizing the testing lab. Currently, we are in the preliminary planning stage to remodel which will correct this problem; however, it will be a year before building changes can be made.

Page Two  
Mr. James Nobles  
August 21, 1989

We would like to thank Sandra Linn and Louis McGuire and recognize them for their professional manner in conducting the audit.

Sincerely,

A handwritten signature in cursive script, appearing to read "Douglas H. Differt".

Douglas H. Differt  
Deputy Commissioner/Chief Engineer

Attachment

cc: L. F. McNamara  
Dave Ekern  
Jim Laumeyer

SF-00006-03

18-9


STATE OF MINNESOTA

DEPARTMENT

*Office Memorandum*

TO: All Supervisors

DATE: 1-17-85

FROM: Al Wierimaa 

PHONE: 749-7793

SUBJECT: Sign Inventory

All signs and sign posts are to be charged out. If there is no one in the sign shop, charge out these items from the stockroom. We have just completed an inventory in the sign Dept. To keep this inventory accurate we need your cooperation. We also need to know if you return any signs or posts, Thank you!

cc: Dave Ekern  
Lyle Herzog


## Office Memorandum

DEPARTMENT : Mn/DOT - Operations Division  
Virginia Maintenance Area 1B

PHONE : 749-7793

DATE : October 26, 1988

TO : All Supervisors &  
Intermittent Foreman

FROM : Al Wierimaa   
Sign Supervisor

SUBJECT : Sign Department Inventory

All signs, sign posts, and signing materials in the Sign Shop are on inventory and must be charged out.

If there isn't anyone in the Sign Shop, please have the stockroom personnel charge out the materials needed.

AW:jab

cc: W. Craig  
D. Ekern  
File