

**DEPARTMENT OF TRANSPORTATION  
BRAINERD AND ST. CLOUD DISTRICTS  
FINANCIAL AUDIT  
FOR THE THREE YEARS ENDED JUNE 30, 1989**

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**AUGUST 1990**

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

**90-57**



# **DEPARTMENT OF TRANSPORTATION BRAINERD AND ST. CLOUD DISTRICTS**

## **FINANCIAL AUDIT FOR THE THREE YEARS ENDED JUNE 30, 1989**

Public Release Date: August 24, 1990

No. 90-57

### **OBJECTIVES:**

- EVALUATE INTERNAL CONTROL STRUCTURE: Administrative disbursements, payroll, and consumable inventory.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

### **CONCLUSIONS:**

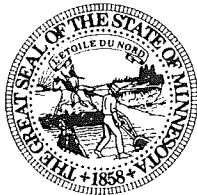
We found two areas where the internal control structure needed improvement:

- Inventory counts are not independently verified at Brainerd and St. Cloud.
- Internal control over administrative disbursements needs improvement.

We found no departures from finance-related legal provisions.

Contact the Financial Audit Division for additional information.  
(612) 296-1730





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. Donald Raisanen, District Engineer  
Department of Transportation - District 3A, Brainerd

Mr. David Trooien, Area Maintenance Engineer  
Department of Transportation - District 3B, St. Cloud

Audit Scope

We have conducted a financial related audit of the Department of Transportation, Districts 3A and 3B, as of and for the three years ended June 30, 1989. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the Department of Transportation, Districts 3A and 3B, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Department of Transportation, Districts 3A and 3B in effect as of April 1990.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transactions of the Department of Transportation, Districts 3A and 3B, are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Department of Transportation, District 3A's and 3B's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of the Department of Transportation, District 3A and 3B, is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

Senator John E. Brandl, Chairman  
Members of the Legislative Audit Commission  
Mr. Leonard W. Levine, Commissioner  
Mr. Donald Raisanen, District Engineer  
Mr. David Trooien, Area Maintenance Engineer  
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- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and
- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

#### Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- administrative disbursements,
- payroll, and
- consumable inventory.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

#### Conclusions

Our study and evaluation disclosed the conditions discussed in findings 1 and 2 involving the internal control structure of the Department of Transportation, Districts 3A and 3B. We consider these conditions to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by

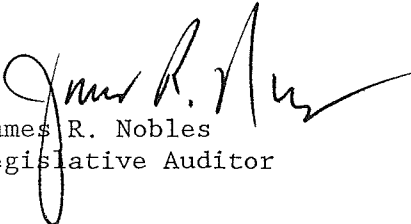
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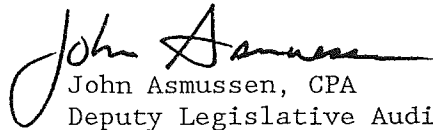
employees in the normal course of performing their assigned functions. We believe none of the reportable conditions described above is a material weakness.

The results of our tests indicate that, with respect to the items tested, the Department of Transportation, Districts 3A and 3B, complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Department of Transportation, Districts 3A and 3B had not complied, in all material respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and management of the Department of Transportation, Districts 3A and 3B. This restriction is not intended to limit the distribution of this report, which was released as a public document on August 24, 1990.

We would like to thank the the Department of Transportation, Districts 3A and 3B staff for their cooperation during this audit.

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

END OF FIELDWORK: June 1, 1990

REPORT SIGNED ON: August 20, 1990





DEPARTMENT OF TRANSPORTATION  
BRAINERD AND ST. CLOUD 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
Carl Otto, CPA	Auditor-in-Charge
Eric Jacobson	Staff Auditor

EXIT CONFERENCES

The findings and recommendations in this report were discussed with the following staff of the Mn/DOT District 3A on May 25, 1990 at Brainerd:

Donald Raisanen	District Engineer
Corey Loney	District Business Manager
Bob Hendrickson	Office Manager
Rick Baillif	Inventory Control Supervisor

The finding and recommendation in this report was discussed with the following staff of the Mn/DOT District 3B on June 1, 1990 at St. Cloud:

David Trooien	Area Maintenance Engineer
Judy Jackson-Melby	Office Manager
Dan Lepinski	Inventory Control Supervisor
Corey Loney	District Business Manager
Tina Worwick	Account Clerk



DEPARTMENT OF TRANSPORTATION  
BRAINERD AND ST. CLOUD DISTRICTS

I. INTRODUCTION

The Minnesota Department of Transportation has established nine "A" district offices to provide for the construction and maintenance of state and interstate highways. Seven of the "A" district offices have subdistrict "B" maintenance offices due to the large geographical area which they cover. The Brainerd and St. Cloud Department of Transportation Districts 3A and 3B are under the control of a district engineer.

Expenditures of the district are classified as either maintenance operations or construction. The Statewide Accounting Managers Financial Report showed that the Brainerd office had total expenditures of \$8,429,000 and the St. Cloud office had total expenditures of \$7,073,000 in fiscal year 1989. Of these amounts, personal services comprised 82 percent of the expenditures at Brainerd and 72 percent at St. Cloud.

Per Department of Transportation records, inventory was valued at about \$477,000 and \$492,500 for Brainerd and St. Cloud as of May 18, 1990.

DEPARTMENT OF TRANSPORTATION  
BRAINERD AND ST. CLOUD DISTRICTS

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. Inventory counts are not independently verified at Brainerd or St. Cloud.

The Brainerd and St. Cloud offices have consumable inventory which is counted on an annual basis. Counts are performed by the 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 someone independent of the inventory function participate in 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.

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 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 Brainerd and St. Cloud district offices.

2. Internal control over administrative disbursements needs improvement at Brainerd.

There is an inadequate separation of duties over administrative disbursements at the Brainerd district office. Under current procedures the responsibilities for purchasing and receiving are performed by all three stockroom personnel. The stockroom supervisor should oversee and approve all purchase orders before the items are ordered. Receiving goods should be performed by the other two technicians. Without adequate separation of duties, errors and irregularities may go undetected.

Administrative disbursements for the fiscal years ended June 30, 1987, 1988, and 1989, were \$971,000, \$1,129,000, and \$1,111,000, respectively. Good internal control over administrative disbursements requires that purchasing and receiving duties not be performed by the same individual.

RECOMMENDATION

- The duties for purchasing and receiving should be separated at the Brainerd district office.



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



August 10, 1990

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

Dear Mr. Nobles:

This memo is written in response to the current findings and recommendations within the preliminary audit report for the Department of Transportation, District 3 with locations in Brainerd and St. Cloud.

Recommendation 1:

We agree with this recommendation as a means of improving internal inventory control. I have therefor directed Don Raisanen, District Engineer and Corey Loney, Administrative Manager to develop a schedule of administrative support personnel who do not work in the inventory center to perform the counts as outlined. They will begin this process effective September 4, 1990, and will provide your office with a copy of the schedule.

Recommendation 2:

In order to provide effective internal control over administrative disbursements at Brainerd, I have directed Don Raisanen, District Engineer and Corey Loney, Administrative Manager to assure that all purchase documents are signed by one of three individuals:

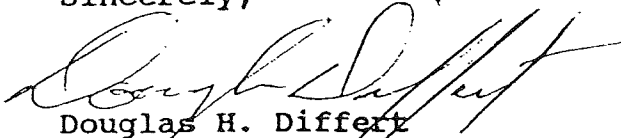
Richard Baillif, Inventory Control Supervisor  
Robert Hendrickson, Office Manager  
Corey Loney, Administrative Manager

This action is designed to provide separation of purchasing and receiving responsibilities.

Mr. James R. Nobles  
August 10, 1990  
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I am confident that the actions noted above will provide the internal controls necessary to resolve the findings contained in the report.

Sincerely,



Douglas H. Differt  
Deputy Commissioner

cc: L. F. McNamara, Room 413  
D. Raisanen, District Engineer - Brainerd  
C. Loney, Administrative Manager - Brainerd  
D. Trooien, Assistant District Engineer - St. Cloud