

**DEPARTMENT OF TRANSPORTATION
WILLMAR DISTRICT
FINANCIAL AUDIT
FOR THE FOUR YEARS ENDED JUNE 30, 1990**

SEPTEMBER 1990

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

90-66

DEPARTMENT OF TRANSPORTATION WILLMAR DISTRICT

FINANCIAL AUDIT FOR THE FOUR YEARS ENDED JUNE 30, 1990

Public Release Date: September 19, 1990

No. 90-66

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Payroll, supplies, expenditures, fixed asset inventory control, and consumable inventory control.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

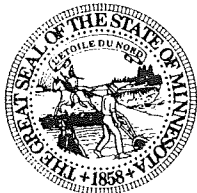
CONCLUSIONS:

We found one area where the internal control structure needed improvement:

- The district should separate the duties over consumable inventory and computer equipment inventory.

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

Senator John E. Brandl, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Leonard W. Levine, Commissioner
Department of Transportation

Mr. David S. Ekern, District Engineer
Department of Transportation - Willmar District

Audit Scope

We have conducted a financial related audit of the Department of Transportation, Willmar District, as of and for the four years ending June 30, 1990. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the Department of Transportation, Willmar District, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Department of Transportation, Willmar District in effect as of June 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 transaction of the Department of Transportation, Willmar District 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, Willmar District's compliance with certain provisions of laws, regulations, and contracts. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of the Department of Transportation, Willmar District is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, and contracts. 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:

- assets are safeguarded against loss from unauthorized use or disposition;

Senator John E. Brandl, Chairman
Members of the Legislative Audit Commission
Mr. Leonard W. Levine, Commissioner
Mr. David S. Ekern, District Engineer
Page 2

- 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:

- payroll,
- supplies disbursements,
- fixed assets inventory control, and
- consumable inventory control.

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 finding 1 involving the internal control structure of the Department of Transportation, Willmar District. 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 employees in the normal course of performing their assigned functions. We believe none of the reportable conditions described above is a material weakness.

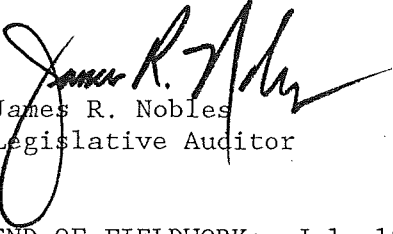
Senator John E. Brandl, Chairman
Members of the Legislative Audit Commission
Mr. Leonard W. Levine, Commissioner
Mr. David S. Ekern, District Engineer
Page 3

We also noted other matters involving the internal control structure and its operations that we reported to the management of the Department of Transportation, Willmar District, at the exit conference held on July 19, 1990.

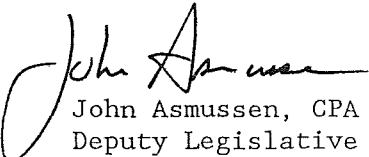
The results of our tests indicate that, with respect to the items tested, the Department of Transportation, Willmar District complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Department of Transportation, Willmar District 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, Willmar District. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 19, 1990.

We would like to thank the Department of Transportation, Willmar District staff for their cooperation during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: July 19, 1990

REPORT SIGNED ON: September 12, 1990

DEPARTMENT OF TRANSPORTATION
WILLMAR DISTRICT

TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION	1
II. CURRENT FINDING AND RECOMMENDATION	2
AGENCY RESPONSE	3

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
Rhonda Regnier, CPA	Auditor-in-Charge
Susan Rumpca	Auditor

EXIT CONFERENCE

The findings and recommendations of this report were discussed with the following officials of the Department of Transportation, Willmar District, at the exit conference held on July 19, 1990:

Linda Bjornberg	Business Manager
Gary Grahn	Inventory Control Supervisor

DEPARTMENT OF TRANSPORTATION
WILLMAR DISTRICT

I. INTRODUCTION

The Minnesota Department of Transportation (MN/DOT) established the Willmar district office to maintain the state and interstate highways in west central Minnesota. The district office is under the control of a district engineer who reports to the assistant commissioner of MN/DOT's operations division. The district office has five sub-office supervisors and sixteen truck stations.

Per the Manager's Financial Report as of June 30, 1990, the district made disbursements of \$10.4 million from July 1989 through June 1990. These disbursements are classified as either maintenance operations or construction operations. Disbursements are comprised of payroll (78%), supplies (17%), and expense and contractual services (5%). A capital project began during fiscal year 1990 which accounts for less than 1% of the total disbursements. According to department records, the district maintains approximately \$1 million of consumable inventory. It also collects a small amount of receipts from the sale of permits and scrap material.

DEPARTMENT OF TRANSPORTATION
WILLMAR DISTRICT

II. CURRENT FINDING AND RECOMMENDATIONS

1. The Willmar District should separate the duties over consumable inventory and computer equipment inventory.

The duties over the safeguarding, recording, and counting of consumable inventory and computer equipment are not adequately separated. A similar weakness exists in four locations: Willmar inventory center and sign shop and Marshall inventory center and sign shop. In each location, the same employee purchases inventory, adjusts inventory records, maintains custody of inventory, and conducts physical counts. These employees have incompatible duties which may result in undetected errors or irregularities. To ensure the integrity of the records, someone independent of the custody function needs to participate in the physical counts.

In a fifth location, the Willmar office, one employee maintains a listing of computer equipment and conducts physical counts of the computer equipment inventory. These duties are incompatible and may allow the person to conceal missing computer equipment or errors on the inventory listing. Good internal control requires that an independent employee assist in the physical inventory counts.

RECOMMENDATION

- An independent person should participate in the consumable inventory counts at the Willmar inventory center and sign shop, and the Marshall inventory center and sign shop.
- Someone independent of the recordkeeping function for computer equipment inventory in the Willmar Office should participate in the physical inventory counts.



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



September 17, 1990

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

RE: Responses to Preliminary Audit Report
July 1, 1986 - June 30, 1990

Dear Mr. Nobles:

I have received a copy of the referenced audit report and the following response represents actions agreed to by Management of the Willmar District. I am confident that these actions satisfy resolution to the finding and recommendations outlined in the audit report.

FINDING: The Willmar District should separate the duties over consumable inventory and computer equipment inventory.

Response to recommendations: We concur that in the Willmar Inventory Center and Sign Shop, the Marshall Inventory and Sign Shop, that the same employee purchases inventory, adjusts inventory records, maintains custody of inventory and conducts physical counts. In the Willmar Office, one employee maintains a listing of computer equipment and conducts physical count of the computer equipment inventory. This is due to staffing and is an area where we cannot segregate responsibilities without adding staff. However, we do intend to implement the auditors' recommendations by periodically having someone independent of each of these work locations participate in the inventory counts.

Responsible for implementation: Linda Bjornberg, Administrative Manager

Projected for completion: Effective immediately

James R. Nobles
September 17, 1990
Page 2

In summary, the actions described above pertaining to the findings and recommendations will address noted concerns. Willmar will be requested to follow-up with correspondence to my office when all of the actions have been implemented. I am pleased with the professional manner with which your office and personnel conduct their audits, and it is apparent that good working relationships have been developed throughout the years.

Sincerely,

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

Douglas H. Differt
Deputy Commissioner, Chief Engineer