

DEPARTMENT OF TRANSPORTATION
MANKATO AND WINDOM DISTRICTS

FINANCIAL AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1991

OCTOBER 1992

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

DEPARTMENT OF TRANSPORTATION MANKATO AND WINDOM DISTRICTS

FINANCIAL AUDIT FOR THE THREE YEARS ENDED JUNE 30, 1991

Public Release Date: October 16, 1992

No. 92-76

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: payroll; consumable inventory; supplies; and travel at Mankato only.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

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

- Someone independent of the inventory and custodial functions should participate in the annual physical inventory at the Windom office.
- The Windom office should include unit prices on their purchase orders at the time orders are placed.

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

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. James N. Denn, Commissioner
Department of Transportation

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

Mr. George Welk, Assistant District Engineer
Department of Transportation - District 7B, Windom

Audit Scope

We have conducted a financial related audit of the Department of Transportation, Districts 7A and 7B, as of and for the three years ending June 30, 1991. 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 7A and 7B, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Department of Transportation, Districts 7A and 7B in effect as of April 1992.

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, Districts 7A and 7B 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, Districts 7A and 7B'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, Districts 7A and 7B are 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:

Representative Ann Rest, Chair
Members of the Legislative Audit Commission
Mr. James N. Denn, Commissioner
Mr. Robert Pecore, District Engineer
Mr. George Welk, Assistant District Engineer
Page 2

- 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:

- payroll,
- consumable inventory,
- supplies, and
- travel (Mankato).

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, Mankato and Windom Districts. 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

Representative Ann Rest, Chair
Members of the Legislative Audit Commission
Mr. James N. Denn, Commissioner
Mr. Robert Pecore, District Engineer
Mr. George Welk, Assistant District Engineer
Page 3

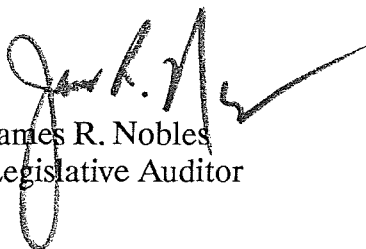
that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control structure and its operations that we reported to the management of the Department of Transportation, Districts 7A and 7B, at the exit conferences held on June 11 and June 25, 1992.

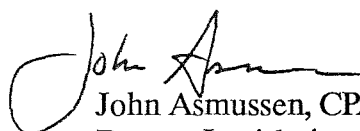
The results of our tests indicate that, with respect to the items tested, the Department of Transportation, Districts 7A and 7B, complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to the items not tested, nothing came to our attention that caused us to believe that the Department of Transportation, Districts 7A and 7B 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 7A and 7B. This restriction is not intended to limit the distribution of this report, which was released as a public document on October 16, 1992.

We would like to thank the Department of Transportation, 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: June 25, 1992

Report Signed On: October 8, 1992

Department of Transportation Districts 7A and 7B

Table of Contents

	Page
Introduction	1
Current Findings and Recommendations	2
Agency Response	4

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
Ron Mavetz, CPA	Auditor-in-Charge
Karen Klein	Staff Auditor

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Mn/DOT District 7B on June 25, 1992 at Windom:

Dave Enfield	Business Manager District 7
Allen Peterson	Office Supervisor District 7B

The findings and recommendations in this report were discussed with the following staff of the Mn/DOT District 7A on June 11, 1992 at Mankato:

Robert Pecore	District Engineer
Dave Enfield	Business Manager
Janet Bergerson	Office Manager
Gary Heller	Inventory Control Supervisor

Department of Transportation Districts 7A and 7B

Introduction

The Minnesota Department of Transportation (Mn/DOT) has established the Mankato office as part of a nine district system. The district offices provide for the construction and maintenance of state trunk and interstate highway systems. The district is divided into two areas: the Mankato office is an "A" district office, with a subdistrict "B" office located in Windom. The district engineer directs the entire district operation, with the Windom subdistrict under the direct supervision of the assistant district engineer. Twenty four truck stations are located within the district. The district is responsible for 3,441 lane miles of highway.

Both the Mankato and Windom maintenance buildings operate inventory centers. Stock items include supplies, materials, and fuels used by highway maintenance, shop, and garage staff housed in each facility. The truck stations throughout the district also have a limited amount of inventory and stockpile materials on hand. The June 30, 1991 inventory valuations for the Mankato and Windom districts were \$543,318 and \$520,553 respectively.

Selected Fiscal Year 1991 expenditures were as follows:

<u>Activity</u>	<u>Mankato</u>	<u>Windom</u>	<u>Totals</u>
Payroll	\$ 8,742,471	\$3,758,065	\$12,500,536
Supplies & Materials	1,835,041	1,381,420	3,216,461
Travel	118,201		118,201
Other	<u>520,142</u>	<u>296,161</u>	<u>816,303</u>
Totals	<u>\$11,215,855</u>	<u>\$5,435,646</u>	<u>\$16,651,501</u>

Source: Managers Financial Report as of September 3, 1991.

**Department of Transportation
Districts 7A and 7B**

Current Findings and Recommendations

1. Controls over consumable inventory need improvement.

There is an inadequate separation of duties over consumable inventories at the Windom office. The two inventory center employees who buy, receive, and issue inventory also perform physical inventory counts. The employees count the inventory annually and management approves adjustments to the inventory system based on the counts. The inventory center provides supplies, materials, and fuels to highway maintenance, shop, and garage staff. The office spent \$1,381,420 for consumable inventories during Fiscal Year 1991 and had a \$520,553 inventory balance at year end.

An employee independent of the inventory center should perform the physical inventory counts. Errors and irregularities can be concealed if the individuals with custody of the inventory are also performing the inventory counts. We understand it may not be prudent to have independent employees perform the counts on their own due to the nature of the inventory items. However, someone independent of the inventory center should accompany the inventory employees during their counts to verify the count accuracy.

Recommendation

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

2. Controls over administrative disbursements need improvement.

The Windom office does not include unit prices on its purchase orders. The inventory center is the primary purchaser of administrative items. The center provides supplies, materials, and fuels to highway maintenance, shop, and garage personnel. The center fills out and approves the purchase orders and forwards them to the accounts payable section. Accounts payable places the purchase orders in a suspense file and matches them to receiving reports and invoices for payment. Accounts payable staff record invoice prices on the purchase orders during the payment process. The office incurred \$1,381,420 in inventory expenses during Fiscal Year 1991.

Unit prices on purchase orders allow the accounts payable unit to determine the office's current liabilities and to review invoice accuracy. Also, the prices on the purchase order provide documentation of the agreed upon price. Department of Finance Policies and Procedures 06:04:04 also require agencies to include unit prices on the purchase orders. The

**Department of Transportation
Districts 7A and 7B**

accounts payable unit can not determine the accuracy of invoice pricing if the inventory center does not include unit prices on the purchase orders.

Recommendation

- *The office should include unit prices on their purchase orders at the time orders are placed. .*



Minnesota
Department of Transportation
Transportation Building
395 John Ireland Boulevard
Saint Paul, Minnesota 55155

September 25, 1992

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Centennial Building
St. Paul, Minnesota 55155

Dear Mr. Nobles:

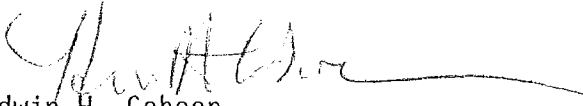
The findings and recommendations of the preliminary audit of Mn/DOT Mankato/Window District performed in June 1992 identified two reportable conditions. In this letter, I will outline a plan to correct the two conditions.

The first reportable condition is that controls over consumable inventory need improvement. The recommendation is that someone independent of the inventory staff should participate in the annual physical inventory process. David Enfield, Administrative Manager will ensure this is implemented immediately, and any future physical inventory counts will be conducted by someone independent of the inventory center staff. This will most likely be an administrative office employee who is not associated with the inventory staff. Mr. Enfield has discussed this process with George Welk, Area Maintenance Engineer and John Berge, Inventory Control Supervisor at Window.

The second reportable condition is that controls over administrative disbursements need improvement. The recommendation is for the office to include unit prices on their purchase orders at the time such orders are placed. Mr. Enfield discussed this issue with Mr. Berge. Effective immediately, Mr. Berge will assure that prices are included on the purchase orders at the time such purchase orders are placed with the vendor. Mr. Enfield will work closely with Mr. Berge to ensure that this becomes the normal process for ordering parts and supplies on a regular basis.

I believe that the actions taken by our Mankato/Window Managers will successfully resolve the conditions noted within the scope of this audit.

Sincerely,


Edwin H. Cohoon
Deputy Commissioner