

MINNESOTA DEPARTMENT OF TRANSPORTATION

DISTRICT 8 - WILLMAR

FINANCIAL AUDIT

FOR THE TWO YEARS ENDED JUNE 30, 1992

SEPTEMBER 1993

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

93-49

**DEPARTMENT OF TRANSPORTATION
DISTRICT 8 -- WILLMAR**

**FINANCIAL AUDIT
FOR THE TWO YEARS ENDED JUNE 30, 1992**

Public Release Date: September 3, 1993

No. 93-49

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Payroll; consumable inventory; and supplies.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

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

- The district needs to improve controls over consumable and sign shop inventory.

We found no departures from finance-related legal provisions.



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Phil Riveness, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. James N. Denn, Commissioner
Department of Transportation

Mr. David Trooien, District Engineer
Department of Transportation - District 8, Willmar

Audit Scope

We have conducted a financial related audit of the Department of Transportation, District 8, as of and for the two years ending June 30, 1992. 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, District 8 in effect as of April 1993.

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 8 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 8'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, District 8 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;

- 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, and
- disbursements for supplies.

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.

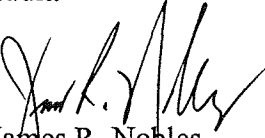
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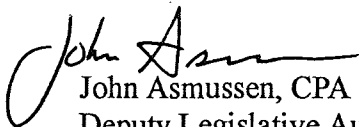
We also noted other matters involving the internal control structure and its operations that we reported to the management of the Department of Transportation, District 8, at the exit conferences held on June 18, 1993.

The results of our tests indicate that, with respect to the items tested, the Department of Transportation, District 8, 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, District 8 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, District 8. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 3, 1993.

We thank the Department of Transportation, District 8 staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: June 18, 1993

Report Signed On: August 30, 1993

**Department of Transportation
District 8**

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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
Kari Irber, CPA	Auditor-in-Charge
Melissa Gamble	Staff Auditor

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Mn/DOT District 8 on June 18, 1993 at Willmar:

Linda Bjornborg	District Business Manager
Sharon Squires	Office Manager
Gary Grahn	Inventory Control Supervisor
Kay Johnson	Accounting
Linda Tenson	Accounting/Payroll
Julie Binger	Accounting/Payroll
Kathi Golden	Inventory-Auto Part Technician
Greg Ardoff	Inventory-Auto Part Technician

Department of Transportation District 8

Introduction

The Minnesota Department of Transportation (Mn/DOT) has established the Willmar office as part of a nine district system. The district office provides for the construction and maintenance of state trunk and interstate highways in west central Minnesota. The district engineer directs the entire district operation and reports to the assistant commissioner of MN/DOT's operations division. Originally, Marshall was a subdistrict of the Willmar district. However, now the business operations are handled in Willmar for the entire district. The Marshall office does have an inventory center. The district office has 16 truck stations and over 3,038 miles of trunk highway.

Stock items in the inventory center 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 4, 1993 inventory valuation for the Willmar and Marshall offices was \$356,719 and \$153,892, respectively. The inventory valuation for the sign shops at Willmar and Marshall was \$121,330 and \$85,353 as of June 4 and June 11, 1993, respectively.

The selected Fiscal Year 1991 and 1992 expenditures were as follows:

	Fiscal Year <u>1992</u>	Fiscal Year <u>1991</u>	<u>Totals</u>
Payroll	\$ 9,348,410	\$ 8,648,199	\$17,996,609
Supplies & Materials	2,020,812	2,141,866	4,162,678
Other	<u>710,404</u>	<u>723,195</u>	<u>1,433,599</u>
Total	<u>\$12,079,626</u>	<u>\$11,513,260</u>	<u>\$23,592,886</u>

Source: Managers Financial Report as of September 5, 1992 and August 31, 1991.

Current Finding and Recommendations

1. The Willmar District needs to improve controls over consumable and sign shop inventory.

The Willmar District does not have adequate control over consumable and sign shop inventory.

The Willmar District does not separate the duties over the safeguarding, recording and counting of consumable inventory. This problem exists at the Willmar and Marshall inventory centers and sign shops. In each location, the same employees purchase inventory, adjust inventory records, maintain custody of inventory, and conduct physical counts. These employees have incompatible duties which may result in undetected errors and irregularities. Someone independent of the custody function should participate in the physical counts to help ensure the accuracy of the inventory records.

The Willmar sign shop does not perform annual inventory counts or cycle counts on sign shop inventory. The sign shop should perform annual inventory counts or cycle counting to update the inventory records. In addition, the Department of Transportation requires the district offices to perform cycle counting or an annual inventory. Also, the Willmar sign shop does not adequately update the inventory records. The sign shop does not record inventory usage on a timely basis. Instead, employees rely upon their memories and update the records once each week. Therefore, the Willmar sign shop may not be properly adjusting inventory records to reflect current inventory levels.

Recommendations

- *A person, other than the inventory staff, should participate in the inventory counts at the Willmar and Marshall inventory centers and sign shops.*
- *The Willmar sign shop should perform annual inventory counts or cycle counts.*
- *The Willmar employees using the sign shop should record inventory usage on a timely basis.*



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

August 25, 1993

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

RE: Responses to Preliminary Audit Report
July 1991 - June 1993

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 findings and recommendations outlined in the audit report.

FINDING: The Willmar District needs to improve controls over consumable and Sign Shop inventory.

We concur that in the Willmar and Marshall Inventory Centers and Sign Shops the same employees purchase inventory, adjust inventory records, maintain custody of inventory and conduct physical counts.

Response to Recommendation:

1. After the exit conference on June 18, 1993, a complete physical inventory was completed in the Willmar Sign Shop. A person not regularly scheduled to work in that area assisted in counting and verifications. Adjustments were made with the Transportation Materials Supervisor's assistance. A regular cycle counting activity will be initiated on an CAMMS (Computer Assisted Materials Management System) enhancement. At the present time, we cannot create an ABC record (printout of fast, medium, slow moving items for cycle counting purposes) for the Sign Shop inventory location within the 8095 (Willmar) Cost Center. The non-inventory employee is now and will continue to work on the cycle counting responsibility for the Sign Shop and Inventory Center in Willmar and someone is being assigned in Marshall.

Mr. James Nobles
August 25, 1993
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The Willmar Sign Shop has revamped their charge-out process to address the issue of timely record keeping. Inventory usage is done on a timely basis which results in inventory levels on the computer matching the shelf count more readily. We anticipate that on December 1, 1993, that both Sign Shops will be on CAMMS. This will give them the ability to make inquiries of their on-hand balances and allow them to make adjustments on a timely basis.

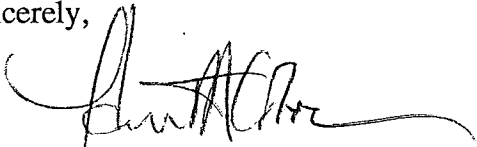
Responsibility for Implementation: Linda Bjornberg, Administrative Manager

Projected Completion: Action to implement has commenced, and review will be ongoing.

In summary, the actions described above pertain to the finding and recommendations will address noted concerns.

I am pleased with the professional manner your office and personnel conduct their audits and it is apparent that good working relationships continue to be enhanced throughout the years.

Sincerely,



Edwin H. Cohoon
Deputy Commissioner/Chief Financial Officer

cc: Darryl Durgin - Room 408
Patrick Hughes - Room 413
Jeanne Chasteen - Room 413
Dave Trooien - District 8
Linda Bjornberg - District 8