



FINANCIAL AUDIT DIVISION REPORT

**Department of Natural
Resources**

Internal Control and Compliance Audit

July 1, 2005, through April 30, 2008

January 15, 2009

Report 09-02

FINANCIAL AUDIT DIVISION

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State of Minnesota • James Nobles, Legislative Auditor

January 15, 2009

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Mr. Mark Holsten, Commissioner
Minnesota Department of Natural Resources

This report explains the results of our internal control and compliance audit of the Minnesota Department of Natural Resources for the period July 1, 2005, through April 30, 2008.

We discussed the results of the audit with department staff at an exit conference on December 19, 2008. This audit was conducted by David Poliseno, CPA, CISA, CFE (Audit Manager) and Carl Otto, CPA, CISA (Auditor-in-Charge), assisted by auditors Xin Wang, CPA, Mark Allan, and Jerry Foty. Our fieldwork ended on November 7, 2008.

We received the full cooperation of the Department of Natural Resources' staff while performing this audit.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Report Summary

Conclusions

The Department of Natural Resources' internal controls were not adequate to ensure that it used dedicated Game and Fish Fund revenues in accordance with applicable legal requirements. Controls were generally adequate to ensure the department properly accounted for the sources of Game and Fish Fund revenues. The department's controls were not adequate for its cell phone, travel, and purchase card expenditures. For the items tested, the department did not comply with some finance-related legal requirements. The department did not resolve three of six prior audit findings.

Key Findings

- The department did not use consistent, appropriate methods to allocate Police and Fire Aids revenue, payroll expenses, and central support service costs to the Game and Fish Fund and its dedicated accounts. ([Findings 1](#), page 11; [3](#), page 12; and [5](#), page 16)
- The department did not fully reimburse the Game and Fish Fund for costs associated with its hosting of the North American Wildlife Enforcement Officers Association's annual conference. ([Finding 2](#), page 12)
- The department did not sufficiently reduce the risk created by incompatible access to the state's accounting system. ([Finding 4](#), page 15)
- The department did not review a key report to validate electronic payroll transactions. ([Finding 11](#), page 21)
- The department did not ensure compliance with policies related to cell phone and purchase card use by its employees and did not always have documentation to support authorization of special expenses. ([Findings 13 through 17](#), pages 22 through 26)

Audit Objectives and Scope

Objectives

- Internal Controls
- Compliance

Period Audited

July 1, 2005, through April 30, 2008

Programs Audited

- Game and Fish Fund Sources and Uses
- Cell Phones
- Purchasing Cards
- Travel

Background

The Department of Natural Resources works to conserve and manage the state's natural resources, provide outdoor recreation opportunities, and provide for commercial uses of natural resources in a way that creates a sustainable quality of life. The Game and Fish Fund's receipts are dedicated to specific purposes related to this mission.

Department of Natural Resources

Agency Overview

The Minnesota Department of Natural Resources works to conserve and manage the state's natural resources, provide outdoor recreation opportunities, and provide for commercial uses of natural resources in a way that creates a sustainable quality of life. It operates pursuant to [Minnesota Statutes](#) 2007, Chapter 84. The department organized its operations into eight divisions and four support bureaus and maintained regional offices throughout the state. The regional offices have personnel representing the department's various divisions and a regional director to coordinate the department's efforts throughout the region.

The department's activities are primarily funded by legislative appropriations, federal grants, and user fees appropriated to the agency. Governor Tim Pawlenty appointed Mark Holsten as commissioner in December 2006. Gene Merriam was the commissioner from January 2003 through December 2006.

Game and Fish Fund

The Game and Fish Fund comprised about 23 percent of DNR's financial resources.¹ Statutes designated a variety of revenue sources to this fund for the general purpose of protecting, preserving, and improving the state's wildlife resources and habitats. In addition, within the Game and Fish Fund, the department maintained accounts for revenue sources the Legislature dedicated to specific wildlife or habitat purposes. Table 1 describes these dedicated accounts.

¹ Percent based on DNR's fiscal year 2008 expenditures by fund.

Table 1
Description of Dedicated Game and Fish Fund Accounts

Account Name and Legal Citation	Sources of Funding	Use of the Account
Computerized License Deer/Bear Management <i>Minnesota Statutes</i> 97A.075, subd. 1(c)	Part of \$1 of each deer and bear license, including lifetime licenses.	Supports the electronic licensing system and implementing the deer and bear lotteries.
Deer Habitat Improvement <i>Minnesota Statutes</i> 97A.075, subd. 1(b)	At least \$2 from the sale of each annual deer license, including lifetime licenses.	Deer habitat improvement or deer management programs.
Waterfowl Habitat Improvement <i>Minnesota Statutes</i> 97A.075, subd. 2	Ninety percent of the \$7.50 migratory waterfowl stamp.	Development of wetlands and lakes in the state for waterfowl, management, and promotion of waterfowl habitat.
Trout and Salmon Management <i>Minnesota Statutes</i> 97A.075, subd.3	Ninety percent of the \$10 trout and salmon stamp.	Development, restoration, maintenance, and preservation of trout streams and lakes; stocking of trout and salmon.
Pheasant Habitat Improvement <i>Minnesota Statutes</i> 97A.075, subd. 4	Ninety percent of the \$7.50 pheasant stamp.	Development, restoration and maintenance, and set aside of lands for ring-necked pheasant habitats.
Wild Rice Management <i>Minnesota Statutes</i> 84.0911	Wild rice license fees.	Management of designated public waters to improve natural wild rice production.
Wildlife Acquisition Surcharge <i>Minnesota Statutes</i> 97A.071, subd. 1	Small game license surcharge of \$6.50, including lifetime licenses.	Land acquisition, development, and maintenance costs; at least 50% must be used for land acquisition.
Wild Turkey Management <i>Minnesota Statutes</i> 97A.075, subd.5	Ninety percent of the \$5 wild turkey stamps.	Development, restoration, and maintenance of suitable habitat for wild turkeys.
Heritage Enhancement <i>Minnesota Statutes</i> 297A.94, para. (e)	Statutory portion of the sale of lottery tickets.	Improvement, enhancement, or protection of fish and wildlife resources, including conservation and restoration.
Lifetime Fish and Wildlife Trust <i>Minnesota Statutes</i> 97A.4742, subd. 1	Sale of lifetime fishing, hunting, small game, etc. licenses.	Invested with the State Board of Investment. Offsets the annual license fees lost due to lifetime licenses issued.

Source: 2007 DNR Game and Fish Fund Report.

The Game and Fish Fund received revenue from various sources. The majority of receipts came from the sale of hunting and fishing licenses, lottery proceeds, and federal grants. The Legislature established license fee and surcharge amounts in state statute. DNR's license center processed licenses sold by various local units of government, retailers, and DNR's regional offices. Tables 2 and 3 summarize the department's Game and Fish Fund's revenues for fiscal years 2006 through 2008.

Table 2
Game and Fish Fund Revenues by Source
July 1, 2005, through June 30, 2008

Revenue Source	Fiscal Years		
	2006	2007	2008
Hunting License	\$22,489,682	\$23,459,247	\$23,343,971
Fishing License	21,156,732	21,511,545	20,057,542
Sports Licenses	5,023,700	5,191,158	5,140,019
Stamps	2,474,961	2,574,245	2,533,305
Surcharges	1,793,604	1,939,250	1,892,312
License Issuing Fee	3,201,358	3,194,007	2,944,042
Federal Grants	17,798,639	17,465,391	24,154,164
Interest Income	1,222,781	1,554,839	1,259,669
Lottery Distributions	10,584,615	9,948,174	10,864,132
Other Revenues ¹	1,751,833	1,865,977	2,490,070
Total	\$87,497,905	\$88,703,833	\$94,679,226

¹ Other revenues include timber sales, leasing and easements, fines and restitutions, and other receipts.

Source: Minnesota Accounting and Procurement System.

Table 3
Game and Fish Fund Revenues by Fund and Account
July 1, 2005 through June 30, 2008

Fund/Account Name	Fiscal Years		
	2006	2007	2008
Game and Fish Operations	\$70,102,696	\$71,666,897	\$76,455,964
Computerized License Deer/Bear Mgmt.	649,274	637,344	957,856
Deer Habitat Improvement	1,272,251	1,253,395	1,260,777
Waterfowl Habitat Improvement	695,036	697,146	678,285
Trout and Salmon Management	841,849	852,425	825,773
Pheasant Habitat Improvement	802,459	892,346	882,006
Wild Rice Management	19,916	38,054	36,164
Wildlife Acquisition Surcharge	1,794,494	1,939,250	1,892,354
Wild Turkey Management	131,652	132,327	148,165
Heritage Enhancement	10,584,732	9,948,252	10,877,716
Lifetime Fish and Wildlife Trust	603,544	646,397	664,166
	\$87,497,905	\$88,703,833	\$94,679,226

Source: Minnesota Accounting and Procurement System.

In addition to this revenue, the department received an annual transfer of about \$1.4 million from the Department of Revenue for its share of Police State Aid.² The Department of Revenue determined DNR's share of this aid based on its percentage of licensed peace officers (DNR's conservation officers) compared to other state and local governmental units.

The Legislature authorizes spending from the Game and Fish Fund through appropriations. Tables 4 and 5 summarize the department's Game and Fish Fund expenditures for fiscal years 2006 through 2008.

Table 4
Game and Fish Fund Expenditures by Type
July 1, 2005 through June 30, 2008

<u>Expenditures</u>	<u>Fiscal Years</u>		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
Payroll	\$53,407,227	\$55,364,908	\$58,115,904
Equipment	6,565,513	9,206,306	5,968,998
Professional/Technical Services	4,197,034	4,933,588	4,293,373
Supplies/Printing and Advertising	4,041,416	5,865,707	3,802,120
Agency Direct and Indirect Costs	5,894,738	5,925,490	7,730,915
Building and Land	2,488,759	4,414,753	1,664,775
Aid and Grants	1,870,402	2,481,965	1,340,772
Travel	762,510	831,044	752,672
Other Expenditures ¹	4,320,959	5,082,148	3,762,332
Totals	<u>\$83,548,558</u>	<u>\$94,105,909</u>	<u>\$87,431,861</u>

¹ Other Expenditures include various services, space rental, communications, employee development, and other operating costs.

Source: Minnesota Accounting and Procurement System.

Table 5
Game and Fish Fund Expenditures by Fund
July 1, 2005, through June 30, 2008

<u>Fund Name</u>	<u>Fiscal Years</u>		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
Game and Fish Operations	\$68,485,037	\$75,976,463	\$72,894,214
Computerized License Deer/Bear Mgmt.	231,727	236,207	964,585
Deer Habitat Improvement	1,285,398	1,420,002	1,277,282
Waterfowl Habitat Improvement	655,738	858,292	420,403
Trout and Salmon Management	951,412	838,112	746,639
Pheasant Habitat Improvement	566,082	1,169,824	730,679
Wild Rice Management	35,000	40,175	0
Wildlife Acquisition Surcharge	2,417,352	1,944,735	1,558,221
Wild Turkey Management	122,886	132,056	115,785
Heritage Enhancement	8,797,926	11,490,043	8,724,053
Lifetime Fish and Wildlife Trust ¹	0	0	0
Totals	<u>\$83,548,558</u>	<u>\$94,105,909</u>	<u>\$87,431,861</u>

¹ DNR does not directly spend funds in the trust, but transfers funds to other funds for spending.

Source: Minnesota Accounting and Procurement System.

² *Minnesota Statutes* 2008, 69.031, subd. 5(e).

In addition to examining the sources and uses of the Game and Fish Fund, this audit examined some department-wide expenditures. Table 6 summarizes the department's expenditures for cell phones and travel and its expenditures paid with purchasing cards issued to employees.

Table 6
Selected Expenditures
July 1, 2005, through June 30, 2008

Expenditures	Fiscal Years		
	2006	2007	2008
Purchasing Cards ¹	\$2,044,460	\$2,699,657	\$2,394,140
Employee Travel ¹	2,760,460	3,229,908	2,758,188
Cell Phone	446,176	396,222	364,211
Total	<u>\$5,251,096</u>	<u>\$6,325,787</u>	<u>\$5,548,550</u>

¹Because employees sometimes used purchasing cards to pay for travel expenditures, some transactions are included in both purchase card and travel expenditure types.

Source: Minnesota Accounting and Procurement System.

Objective, Scope, and Methodology

Our audit of the Department of Natural Resources focused on the sources and uses for the Game and Fish Fund, on the department's expenditures for cell phones and travel, and its use of purchasing cards. Our audit covered the period from July 1, 2005, to April 30, 2008, for fiscal years 2006, 2007, and 2008 (through April 30, 2008). Our objective was to answer the following questions:

- Were the department's internal controls adequate to ensure that it properly accounted for its Game and Fish Fund revenue, and that it used the fund's financial resources in compliance with applicable legal requirements and state policy?
- For its cell phone, travel, and purchase card transactions, were the department's internal controls adequate to ensure that it accurately paid employees and vendors in accordance with management's authorization, produced reliable financial information, and complied with finance-related legal requirements and state policy?
- For the items tested, did the department comply with significant finance-related legal requirements over its financial activities, including state and federal laws, regulations, contracts, and applicable policies and procedures?

- Did the department resolve prior audit findings?³

To answer these questions, we interviewed agency staff to gain an understanding of the controls related to the department's financial operations. In determining our audit approach, we considered the risk of errors in the accounting records and potential noncompliance with finance-related legal requirements. We also analyzed accounting data to identify unusual transactions or significant changes in financial operations for further review. In addition, we selected samples of financial transactions and reviewed supporting documentation to test whether the department's controls were effective, and if the transactions complied with laws, regulations, policies, and grant and contract provisions.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

We used the guidance contained in Internal Control-Integrated Framework,⁴ published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate agency controls. We also used [Minnesota Statutes](#) and state policies and procedures established by the departments of Finance⁵ and Administration, as well as the department's internal policies and procedures as evaluation criteria.

Conclusions

The Department of Natural Resources' internal controls were not adequate to ensure that it used dedicated Game and Fish Fund revenues in accordance with applicable legal requirements. The department's controls for its accounting of the sources of Game and Fish Fund revenues were generally adequate, but it needs to improve controls over its allocation of certain revenue received from the Department of Revenue.

³ Office of the Legislative Auditor, Financial Audit Division Report [07-36](#), *Department of Natural Resources*, issued December 21, 2007.

⁴ The Treadway Commission and its Committee of Sponsoring Organizations were established in 1985 by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity. The resulting Internal Control-Integrated Framework is the accepted accounting and auditing standard for internal control design and assessment.

⁵ Effective June 2008, the Legislature reorganized the Department of Finance to include the duties of the Department of Employee Relations. Although still identified in statute as the Department of Finance, in October 2008, the department changed its name to Minnesota Management and Budget. The department will seek legislative approval for the name change in the 2009 legislative session.

The department's internal controls were not adequate for its cell phone, travel, and purchase card expenditures to ensure that the department safeguarded its assets, accurately paid employees and vendors in accordance with management's authorization, produced reliable financial information, and complied with finance-related legal requirements.

For the items we tested, the department did not comply with some finance-related legal requirements for the sources and uses of the Game and Fish Fund and some requirements related to cell phones, purchasing cards, and travel.

The department did not resolve three of six prior audit findings. Unresolved findings are repeated in this report.

The following *Findings and Recommendations* further explain the department's internal control weaknesses and noncompliance.

Findings and Recommendations

The Department of Natural Resources allocated certain state aid to the Game and Fish Fund in excess of the statutory amount.

Finding 1

The department allocated too much Police State Aid to the Game and Fish Fund because it based its allocation on old payroll data. DNR allocated its share of the aid to various funds based on each fund's 2001 payroll costs for its conservation officers. The department did not annually update its allocation basis to reflect its actual conservation officers' compensation.

State statutes require the department to record the aid "to the funds and accounts from which the salaries of peace officers . . . are paid."⁶

Table 7 compares DNR's 2007 and 2008 allocations of Police State Aid to our allocations based on actual conservation officers' compensation by fund.

Table 7
Police State Aids Allocation
Fiscal Years 2007 and 2008

Fund	Fiscal Year 2007 Allocation of 2006 Aid			Fiscal Year 2008 Allocation of 2007 Aid		
	DNR Allocation	Auditor Allocation	Over / (Under)	DNR Allocation	Auditor Allocation	Over / (Under)
General	\$ 308,000	\$ 180,201	\$127,799	\$ 308,000	\$ 188,365	\$119,635
Water Recreation	33,876	111,864	(77,988)	34,139	125,610	(91,471)
Snowmobile	50,814	80,797	(29,983)	51,209	77,486	(26,277)
All-Terrain Vehicle Off-Highway	0	97,236	(97,236)	0	100,824	(100,824)
Motorcycle	0	6,375	(6,375)	0	6,099	(6,099)
Off-Road Vehicle	0	4,117	(4,117)	0	4,713	(4,713)
Game and Fish	1,033,221	945,321	87,900	1,041,244	931,495	109,759
Total	\$1,425,911	\$1,425,911	\$ 0	\$1,434,592	\$1,434,592	\$ 0

Source: Minnesota Accounting and Procurement System.

The table shows that the department overallocated Police State Aid to the General Fund and Game and Fish Fund and underallocated Police State Aid to five nongame and fish funds.

⁶ *Minnesota Statutes* 2008, 69.031, subd. 5(e).

Recommendation

- *The department must annually adjust its fund allocation of Police State Aid so that the allocation reflects each fund's share of conservation officers' compensation, as required by statute.*

Finding 2

The department did not fully reimburse the Game and Fish Fund for costs associated with its hosting of the North American Wildlife Enforcement Officers Association's annual conference.

The department did not fully reimburse the Game and Fish Fund for the inappropriate costs associated with the North American Wildlife Enforcement Officers Association's annual conference. The department initially paid most of the conference costs out of the Game and Fish Fund. Our investigation of the conference identified about \$300,000 that the department had used inappropriately.⁷ Consequently, these costs were not appropriate uses of Game and Fish Fund resources or other dedicated nongame and fish funds.

In June 2008, the department reimbursed the Game and Fish Fund \$84,828 for conference related administrative costs, including some of the inappropriate costs. The department made the reimbursement from the General Fund and other dedicated nongame and fish funds. In addition, the department reimbursed the Game and Fish Fund for about \$5,000 of questioned payroll costs from dedicated nongame and fish funds.

Recommendation

- *The department should reimburse the Game and Fish Fund from the General Fund for all inappropriate costs identified in the special review.*

Finding 3

The Department of Natural Resources did not effectively monitor payroll allocations to the Game and Fish Fund.

The department did not review payroll charges to the Game and Fish Fund or the other dedicated accounts to ensure that divisions and employees allocated payroll costs appropriately. Payroll costs should be allocated in a way that reasonably approximates the actual time spent by employees on duties related to the objectives of the Game and Fish Fund or the other dedicated accounts. The department allowed each division to determine how to allocate its payroll costs.

⁷ Office of the Legislative Auditor's Financial Audit Division Report 08-21, *Department of Natural Resources and the 2007 North American Wildlife Enforcement Officers Association Conference*, issued August 28, 2008.

Based on these determinations and activity coding used by employees when entering their hours, the state's payroll system allocated payroll costs to various funds. However, the department did not always ensure that the allocations were reasonable or consistent with the percentages authorized, or that the employees coded their time appropriately. The department had the following weaknesses in its payroll allocation process and transactions:

- The Enforcement Division could not support its allocation of payroll costs to the Game and Fish Fund for fiscal years 2006 and 2007. The department allocated payroll to the Game and Fish Fund in those years totaling approximately \$8.5 million and \$9.2 million, respectively.⁸ Enforcement Division staff stated that they allocated the division's payroll costs based on projected work plans of division staff; however, they had no documentation to show how the prior year's data supported the percentages used. The division used an electronic spreadsheet to determine the allocation percentages and overwrote the prior year's calculations when determining the current year amounts. Without supporting documentation, there is no assurance that the payroll charged to the Game and Fish Fund corresponded to the work effort of division staff for the fund's purposes.
- The Enforcement Division did not allocate some payroll costs between funding sources during fiscal years 2006 through 2008. It did not allocate 17 of 29 separation payments tested and 30 of 311 retroactive lump sum payments tested. Instead, the division paid the costs, totaling \$105,300, entirely from the Game and Fish Fund.
- The Fish and Wildlife Division charged \$61,461 of payroll costs to game and fish dedicated accounts inconsistently with a matrix the department created from information received from the Game and Fish Fund Oversight Committee.⁹ The department created the matrix to link certain payroll activity codes with specific dedicated accounts. Division staff stated that most of the inconsistent payroll charges occurred when they allowed several employees to use payroll activity codes not in the matrix. The division did not document the reasons for this decision or obtain proper authorization from management. Analysis of the payroll charged to the dedicated accounts for fiscal years 2006 through 2008 identified the errors shown in Table 8.

⁸ The Enforcement Division allocated its payroll costs to five funds: the state's General Fund, the Game and Fish Fund, and funds for water recreation, snowmobiles, and all-terrain vehicles. The majority of the Enforcement Division's payroll expense is for conservation officers who monitor the public's compliance with a variety of regulations.

⁹ *Minnesota Statutes* 2007, 97A.055, subd. 4b, created the Game and Fish Fund Oversight Committee to oversee the management and use of the Game and Fish Fund and its dedicated accounts.

Table 8
Summary of Incompatible Matrix Payroll Costs
by Dedicated Account
Fiscal Years 2006 through 2008

<u>Fund Name</u>	<u>Amount</u>
Computerized License Deer/Bear Management	\$ 4,113
Deer Habitat Improvement	271
Waterfowl Habitat Improvement	282
Trout and Salmon Management	945
Wild Turkey Management	2,172
Heritage Enhancement	<u>53,678</u>
Total	<u>\$61,461</u>

Source: Auditor generated from the state's payroll system and agency records.

- The Fish and Wildlife Division did not allocate payroll costs for leave, lump sum payments, and training consistent with how the employees had charged their actual time. For example, one employee charged less than 10 percent of his time to a dedicated account, but the default allocations in the payroll system charged 50 percent of his leave to the account. The division had the following errors in payroll charges for 2 of 37 employees tested:
 - Undercharged approximately \$2,300 to the Game and Fish Fund.
 - Overcharged approximately \$10,000 to the computerized licensing deer and bear management account.
 - Overcharged approximately \$9,000 to the deer habitat improvement account.
- The Land and Minerals Division did not adequately review its payroll allocations. One employee had ten percent of his separation pay charged to the Game and Fish Fund, although only two percent of his regular pay had been charged to that fund. The department charged all of another employee's retroactive lump sum payment to the Game and Fish Fund, when less than 60 percent of the regular pay had been charged to that fund.
- The department's Office of Management and Budget Services used the wrong allocation formula for its separation and retroactive lump sum payments during fiscal years 2006 through 2008. As a result, the office overcharged the Game and Fish Fund \$1,420 for 2 of 9 separation payments and 10 of 52 retroactive lump sum payments we tested.

Payroll costs are a major expense of the Game and Fish Fund and the other dedicated accounts. Without reliable application of authorized allocation processes and effective monitoring controls, the department is unable to ensure that the various divisions and operational support bureaus reasonably allocated payroll costs consistent with employees' actual duties.

Recommendations

- *The department should review methods used to allocate payroll charges to ensure that the methods reasonably approximate actual work performed by employees.*
- *The department should monitor payroll allocations to ensure that payroll charges are consistent with the allocation methods authorized.*
- *The department should review payroll costs charged to the Game and Fish Fund and its dedicated accounts to identify other payroll allocation errors.*
- *To the extent possible, the department should adjust the accounting records to correct the allocation errors noted in this finding and through its review.*

Prior Finding Partially Resolved: The department did not fully implement a mitigating control to reduce the risk of incompatible access to the state's accounting system.

Finding 4

Not all divisions complied with a department policy designed to mitigate the risks created by allowing staff to have incompatible access in the state's accounting system. The department's Office of Management and Budget Services' policy required each division to review a sample of payments each month and confirm that the transactions were for a legitimate and authorized state purpose and that all required supporting documentation was present.¹⁰ One out of five divisions tested could not find the reviewed reports; two divisions were behind schedule; and one division did not select enough payments to review.

The department designed this control in response to our prior audit report that identified employees with incompatible access to the state's accounting system, which the department uses to process payments to vendors.¹¹ The department did not monitor whether the control was working as designed or whether it was effective. As of September 2008, the department had about 50 employees with incompatible access in the state's accounting system.

Separation of incompatible duties is an important, fundamental internal control to prevent an employee from initiating, recording, and processing transactions

¹⁰ Department of Natural Resources Office of Management and Budget Policy 05:23.

¹¹ Office of the Legislative Auditor's Financial Audit Division Report [07-36](#), *Department of Natural Resources*, issued December 21, 2007.

without the involvement of other staff. Although eliminating the incompatible access would be the strongest control, a well designed mitigating control could be effective to reduce the risk of error or fraud.

Recommendation

- *The department needs to ensure that divisions conduct the monthly review of payments designed to mitigate incompatible duties and reduce the risk of errors and fraud.*

Finding 5

The department did not establish guidelines for divisions to use in determining their allocation of central support services to available funding sources.

The three divisions we tested did not have a valid method to allocate its share of central support services to its funds.¹² Staff in the Fish and Wildlife Division and the Trails and Waterways Division stated they allocated the costs based on the proportion of funding it received for its operations. This was not an appropriate allocation method because it did not relate the allocated costs to the fund that used the central support service. The Enforcement Division did not attempt to allocate the costs and instead charged the costs to funds and dedicated accounts that had sufficient resources to cover the cost. This division did not retain documentation to support this decision.

Since 2006, the department redirected appropriations for its central support services to the divisions and then billed the divisions for their share of the costs. The department wanted to have division budgets and expenditures more closely reflect the total cost of division operations, including these central support services costs. The department used acceptable methods to allocate the central support services costs to the divisions, but did not guide the divisions in how to further allocate those costs to their various funding sources. For fiscal years 2006 and 2007, the department estimated that the Game and Fish Fund would incur about \$3.7 million for some central support services costs. In fiscal year 2008, the department included more areas of central support, and it estimated that the Game and Fish Fund's share would increase by \$1.8 million.¹³

An acceptable allocation method would allocate the costs to a dedicated funding source in a way that reasonably approximates the actual cost of those services to that source. For example, a reasonable allocation method for central human resources services costs might be based on the number of employees paid by each fund. Similarly, reasonable allocation methods for other types of central support

¹² Central support services included activities such as general accounting, payroll, computer service, and property management.

¹³ Minnesota Fiscal Year 2006-2007 Biennial Budget Request and the Fiscal Year 2008-2009 Biennial Budget Request.

services costs might be based on the square feet of office space or the number of accounting transactions processed.

Without appropriate and consistent allocation methods, along with supporting documentation, the department could not support that it used dedicated funds appropriately.

Recommendations

- *The department should establish guidelines for acceptable allocation methods for its divisions to use when allocating central support service costs to funding sources.*
- *The divisions should retain documentation to support their allocations of central support services costs.*
- *The department should review its divisions' past allocations of central support services costs and, to the extent possible, adjust the allocations to more reasonably approximate the actual cost of those services to the dedicated funding sources.*

The department did not safeguard its fixed assets by performing required annual physical inventories or properly recording fixed asset purchases in its fixed asset tracking system.

Finding 6

The department did not ensure that the central office and the four regional offices performed annual physical inventories, as required by the department's Property Management Policy.¹⁴ The policy requires the Management Resources Bureau in each office to mail the specifics for the inventory to its divisions by January 1 of each year. The policy requires each office to complete the inventory by March 1. However, the central office and three of the four regional offices had no documentation to show that they had completed a physical inventory in 2006; two of the five offices had not done a physical inventory in 2007 and, as of June 2008, none them had completed a physical inventory in 2008.

In addition, as of June 2008, the department had not recorded some fixed assets purchased in its inventory records, as identified in our sample test of Game and Fish Fund equipment expenditures. It had not recorded sixteen laptop computers and four global positioning system survey units in the department's fixed asset inventory system. The department received this equipment between February and August 2007. The department updated its fixed asset system after we brought the omission to their attention.

¹⁴ Department of Natural Resources Property Management Policy, 04:MO2.

Finally, the department did not comply with all of the requirements for the state's *Stolen, Lost, Damaged, or Recovered Property Report*. The department did not properly notify the Office of the Legislative Auditor for lost or stolen assets, as required by *Minnesota Statutes*.¹⁵ The department completed the form, but failed to submit a copy to the Office of the Legislative Auditor. In addition to being a statutory requirement, reports of stolen items allow our office to assess whether a serious internal control weakness may exist and whether the agency has taken appropriate action to address the theft.

Without performing the physical inventory and recording fixed assets in its system, the department increased the risk that its fixed assets could be lost or stolen without detection.

Recommendations

- *The department should perform an annual physical inventory of its fixed assets as required by its Property Management Policy.*
- *The department should review its procurement process to ensure that it accurately identifies fixed assets purchased and updates those assets to its physical inventory records.*
- *The department should submit the Stolen, Lost, Damaged, or Recovered Property Reports to the appropriate authorities when appropriate.*

Finding 7

Two employees approved purchases that exceeded their local purchasing authority.

Two employees violated *Minnesota Statutes*¹⁶ when they approved purchases that exceeded their authority for local purchases. One of the employees with authority for purchases up to \$2,500 approved a service agreement for \$5,120. The other employee approved two leases for \$5,800 each, but did not have authority to approve leases. Purchase authority limitations are designed to ensure that employees making higher cost purchases and certain types of purchases comply with state policy and statutory provisions. The department paid for these costs with Game and Fish Fund resources.

¹⁵Department of Administration Policy ADMIN 06-03 *Property Management User Guide* and *Minnesota Statutes* 2006, 609.456, subd. 2.

¹⁶ *Minnesota Statutes* 2007, 16C.03, subd. 16.

Recommendation

- *The department should ensure that employees only approve purchases consistent with their purchasing authority.*

The Fish and Wildlife Division used Game and Fish Fund resources to pay in advance for work done in the next fiscal year.**Finding 8**

The Fish and Wildlife Division used \$26,300 of fiscal year 2007 Game and Fish Fund resources to pay a June 20, 2007, invoice from the department's fleet shop for parts the shop did not pay for and labor it did not perform until fiscal year 2008. With limited exceptions, *Minnesota Statutes*¹⁷ prohibit the state from paying for goods or services until they are received.

The department's fleet shop repairs and maintains the department's vehicles and equipment and also provides some customization and fabrication services. Department staff stated that the invoice reflected estimated costs based on past experience and that they needed to bill the division in advance so that they could order the parts before the fiscal year ended. Although the shop ordered the parts in June 2007, it did not receive some of the parts until the end of November 2007. The Fish and Wildlife Division's advance payment for the customized equipment totaled \$22,780 for parts and \$3,520 for labor.

Recommendation

- *The department and its divisions should not pay invoices until goods or services are received and should prohibit advance billing for interdepartmental services.*

The department did not always have sufficient payment documentation.**Finding 9**

The department did not always have sufficient documentation to support some expenditure transactions. The department lacked sufficient documentation to support the following transactions selected for testing:

- The Saint Paul regional office could not find documentation for its fiscal year 2006 indirect cost payments, totaling about \$219,500.
- The Fish and Wildlife Division was unable to find documentation to support three central support services payments (two fiscal year 2006 payments for \$259,730 and \$882,000 and one fiscal year 2007 payment for \$449,000).

¹⁷ *Minnesota Statutes* 2007, 16A.41, subd. 1.

- The Fish and Wildlife Division did not have documentation to support a \$32,130 payment for space rental and a \$92,832 payment for other state agency services.

*Minnesota Statutes*¹⁸ require all officers and agencies of the state to maintain records necessary to provide full and accurate documentation of official activities. Statutes further require that the chief administrative officer of each agency preserve the agency's records connected to the transaction of public business, including protecting these records from deterioration, mutilation, loss, or destruction. State policies reinforce this requirement.

Preserving public financial records is an important responsibility – it allows management to demonstrate its appropriate use of public resources and protects employees from accusations of error, illegality, and noncompliance. Without supporting documentation, the department was unable to demonstrate that they procured goods and services in accordance with statutory and state policy requirements and made payments in accordance with authorizations and contracts and, generally, appropriately used its dedicated resources.

Recommendation

- *The department should retain supporting documentation for all of its transactions, as required by statute.*

Finding 10

The department did not always identify expenditures correctly in the state's accounting system.

The department did not always use the correct codes in the state's accounting system to accurately identify the nature of the expenditure. The department had the following expenditure coding errors in the Game and Fish Fund and travel transactions we tested:

- The Enforcement Division incorrectly coded \$96,350 as other purchased services and \$99,000 as supplies, materials, and parts instead of agency direct costs.
- The department incorrectly coded \$87,487 paid to the Minnesota Historical Society as other purchased services instead of environmental, agriculture, and science expenditures, as specified in the interagency agreement. The department entered into an interagency agreement with the Minnesota Historical Society to provide archaeology services.
- The Trails and Waterways Division incorrectly coded \$67,520 as general management and fiscal services instead of agency direct costs.

¹⁸ *Minnesota Statutes* 2007, 15.17, subd. 1 and 2.

- The department incorrectly coded \$32,874 as professional/technical services instead of computer hardware.
- The department incorrectly coded \$22,070 as state agency reimbursements instead of expenditure corrections. The transactions were reimbursements between department divisions not reimbursements between different state agencies.
- The department incorrectly coded \$2,077 as conference registration fees instead of travel and lodging costs and miscellaneous expenditures.
- The department incorrectly coded \$601 as in-state lodging instead of \$397 out-of-state lodging and \$204 as supplies.
- The department incorrectly coded \$1,540 as food instead of splitting the expenditure between food, supplies, and rental equipment. The expenditure was costs related to a trip into the Boundary Waters canoe area.

Miscoded transactions inhibited the department's ability to effectively use the state's accounting system to review and analyze its expenditure transactions.

Recommendation

- *The department should ensure that it correctly codes all financial activity in the state's accounting system.*

Prior Finding Not Resolved: The department did not review a key report to validate self service time entry payroll transactions.

Finding 11

During fiscal year 2008, the department did not consistently review the *Self Service Time Entry Audit Report*, as required by the Department of Finance's policy.¹⁹ The report identifies two types of exceptions, employees that did not complete their own timesheets and timesheets approved by a backup supervisor rather than the primary supervisor. These exceptions indicate a potential breakdown in the control process over the electronic processing of timesheets. The policy requires agencies to review, at a minimum, a representative sample of transactions appearing on the report each pay period and perform a comprehensive review of the report each quarter. The department did not consistently perform the representative samples each pay period, but did perform the quarterly comprehensive reviews. Payroll costs are a major expense of the Game and Fish Fund and the other dedicated accounts. Review of this report is an important control to ensure the accuracy of the department's payroll costs.

¹⁹ Department of Finance Policy PAY0017.

Recommendation

- *The department should review the Self Service Time Entry Audit Report each pay period to ensure that employees are completing their own timesheets, and primary supervisors are approving the time.*

Finding 12

Prior Finding Not Resolved: The department did not always deposit its receipts in a timely manner.

The department did not deposit three of ten nonlicense center receipts we tested. As a result, the department did not comply with statutory provisions that require an agency to deposit receipts totaling \$250 or more in the state treasury daily.²⁰ The late deposits ranged from \$2,080 to \$18,175 and were up to eight days late. In addition, a receipt log used by the department to track receipts held overnight did not always document the date the department deposited the receipts. To effectively monitor deposits, the receipt log should indicate the deposit dates.

Recommendations

- *The department should deposit daily receipts exceeding \$250 in a timely manner.*
- *The department should record all pertinent information in the receipt log.*

Finding 13

The department did not identify personal use of cell phones by its employees.

The department did not comply with federal and state guidelines requiring agencies to monitor personal use of government-owned cell phones.²¹ As a result, the department may not have obtained appropriate reimbursement from employees for personal calls and did not add unreimbursed personal calls to employees' taxable incomes. The Internal Revenue Service and the Minnesota Department of Revenue consider personal use of a business phone as taxable income.

As of August 2007, the department had assigned over 1,300 cell phones to employees throughout the state. Cell phone users tested did not identify and track personal calls when submitting monthly invoices to supervisors for review.

²⁰ [Minnesota Statutes](#) 2007, 16A.275.

²¹ Internal Revenue Service rule on employee cell phone usage, Statewide Policy: Appropriate Use of Electronic Communication and Technology and Minnesota Department of Natural Resources Telephone and Cellular Telephone Use Policy and Procedure.

Department policy requires supervisors to review the monthly invoices to determine if personal use occurred and was properly reported.²² However, because supervisors did not receive employees' monthly invoices they could not perform the proper reviews. The department also did not have a process to periodically monitor whether its employees and supervisors complied with federal, state, and department policies.

In addition, the department's cell phone policy did not align with the federal and state regulations. The department's policy did not specifically require reporting and reimbursement of unallowable personal use.²³ Without proper identification, tracking, and reporting of personal usage, the department may have under reported employees' taxable income and inappropriately used state resources for employees' personal benefit.

Recommendations

- *The department should monitor employees' compliance with the requirement that employees identify and reimburse for personal cell phone usage. Supervisors should document monthly reviews of employees' cell phone billing statements.*
- *The department should amend its cell phone policy to align with the federal and state cell phone regulations.*

The department did not control its assignment of cell phones or conduct annual service plan reviews.

Finding 14

The department did not inventory or perform periodic spot checks on cell phones, as required by state policy.²⁴ State policy requires agencies to perform an annual inventory and periodic spot checks on sensitive assets, such as cell phones.²⁵ The department maintained a database of cell phone users for informational purposes, but did not reconcile, inventory, or perform spot checks of the cell phones to verify the list's accuracy.

In addition, 14 of 15 employees we tested did not sign an acknowledgement of receipt form. State policy requires employees to sign an acknowledgement of receipt form whenever a cell phone is issued by an agency.²⁶ Signing this acknowledgement verifies the receipt and acceptance of the conditions for the assignment of a state-owned cell phone.

²² DNR Telephone and Cellular Telephone Use Policy and Procedure.

²³ DNR Telephone and Cellular Telephone Use Policy and Procedure.

²⁴ Administration Information Bulletin 03.19 and Users Guide to State Property Management.

²⁵ Users Guide to State Property Management.

²⁶ Statewide Policy: Appropriate Use of Electronic Communication.

Finally, the department could not provide documentation that it annually reviewed the appropriateness of cell phone service plans. Annual reviews of service plans, required by state policy,²⁷ help determine if service coverage and charges align with the business needs of the user. Business needs, as well as service plans, are continually changing. An annual review provides a cost versus benefit assessment, an opportunity to switch to a more economical plan, and a determination of whether the calling plan still supports the business need.

Without proper controls, cell phones could be lost, stolen, or misused, resulting in additional costs to the department. Because some temporary and seasonal staff required state-issued cell phones, the department had an increased risk that cell phones may be lost or stolen, and assigned service contracts may not correspond to users' needs.

Recommendation

- *The department should improve control over state-issued cell phones and cell phone service plans by:*
 - *performing inventories and periodic spot checks of issued cell phones;*
 - *obtaining signed acknowledgement of receipt forms from each employee assigned a phone; and*
 - *conducting and documenting annual reviews of cell phone service plans.*

Finding 15

The department's purchasing cardholder agreement lacked essential statements required by state policy.

The department's internally developed purchasing cardholder agreement did not contain a required acknowledgement of consequences resulting from noncompliance with the state's policy. The agreement also omitted a list of restricted card uses, such as alcohol, weapons, explosives, and services covered under a professional/technical contract.²⁸ State policy specifically requires departments to incorporate these acknowledgements into any cardholder agreements.²⁹ State policy requires that departments inform cardholders of these requirements in the cardholder agreement.

Cardholder acknowledgements and lists of restricted uses serve to communicate state policies to employees. The department could incur inappropriate expenditures if cardholder agreements do not sufficiently communicate state purchasing policies about the cardholder's responsibility for compliance with

²⁷ Statewide Policy: Appropriate Use of Electronic Communication.

²⁸ Department of Natural Resources Purchasing Card Guide.

²⁹ Administration Policy 99.4.

state police. The department assigned approximately 1,250 purchasing cards to employees since fiscal year 2006. Some of these cards were limited to travel-related expenditures.

Recommendation

- *The department should use the state's purchasing card acknowledgment form or amend its cardholder agreement to include all acknowledgements and restrictions addressed in the state policy.*

The department did not control purchasing and travel cards assigned to employees.

Finding 16

The department did not monitor purchase card transactions, accounts, or certification dates for purchasing and travel cards. Purchase card expenditures during fiscal years 2006 to 2007 totaled over \$4.7 million. The department had the following weaknesses in monitoring its purchasing cards issued:

- **Cardholder Agreements:** The department did not monitor cardholder records. Nine of twenty-six cardholders we tested did not have updated cardholder applications or did not have cardholder agreements on file. Some cardholder agreement limits identified by the processing bank exceeded amounts on the department's records. Without current and complete cardholder records, the department could not validate that cardholders received the required purchase card training or the necessary authorization and approval from management.
 - **Cardholder Accounts:** The department did not monitor cardholder accounts. Our review identified five cardholders with more than one active purchasing or travel card. The department was not aware that these employees had multiple cards; when notified by us, the department cancelled the extra cards. The employees may have obtained the extra cards when they changed job locations and job duties within the department, and former supervisors did not cancel the old accounts. Without proper controls, employees could circumvent card limits and expose the department to unnecessary liability.
 - **Cardholder Certification Dates:** The department did not monitor cardholder certification dates. Department staff did not maintain a list of the certification dates for cardholders with purchase authority exceeding \$2,500. For one account we tested, an employee with purchase authority up to \$5,000 was one year past the recertification date. State policy requires purchasers to recertify every three years to ensure the employee is
-

aware of current purchasing guidelines.³⁰ The recertification process provides an opportunity to determine whether the higher spending limit is necessary for the employee's job duties and ensures that the employee's knowledge of the state's purchasing policies is current.

Recommendation

- *The department should improve monitoring controls over purchasing and travel cards by:*
 - *documenting current cardholder agreements and applications for all users;*
 - *establishing a change control document to promptly initiate card cancellations when employees change positions; and*
 - *maintaining a current list of certification dates for all cardholders.*

Finding 17

The department did not establish control over special expense claims.

Three of seven of the department's special expense request forms tested by us lacked evidence that employees obtained supervisory approval before incurring an expense. The forms also sometimes lacked a maximum authorized amount for the requested costs. Three of four special expense request forms we tested related to travel reimbursement claims did not have an authorization by a regional manager, as required by department policy, and none of the forms explicitly stated the authorized limit of the request. Business office staff processed employees travel reimbursement claims without questioning the related special expense form deficiencies.

State policy categorizes certain costs as special expenses and requires advance approval to incur the expenses.³¹ Department policy explains the process the department will use to authorize and pay for special expenses.³² The policy states that supervisors can request special expense authorization by completing a special expense form and submitting it to a regional manager. Regional managers review the form and record their approval or denial of the expense. Business office staff later match the special expense authorization to the actual travel expenses and employee reimbursement requests, to ensure that actual costs did not exceed the authorized amounts.

Without clear authorizations and limits for special expenses and without strong business office controls, the department could pay for unauthorized or excessive special expense claims.

³⁰ Authority for Local Purchase Manual, section 1, page 2 of 30, step 1.5.2.

³¹ Department of Employee Relations' Administrative Procedure 4.4.

³² Department of Natural Resources' Administrative Manual, policy 05:02.

Recommendation

- *The department should not pay costs related to special expenses unless there is evidence that those expenses had appropriate, advanced authorization and costs did not exceed the authorized limit.*
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Minnesota Department of Natural Resources

500 Lafayette Road · Saint Paul, Minnesota · 55155-4037

Office of the Commissioner

651-259-5555



January 13, 2009

James Nobles, Legislative Auditor
Office of the Legislative Auditor
658 Cedar Street
St. Paul, Minnesota 55155

Dear Mr. Nobles:

Thank you for the opportunity to respond to the findings of the audit of the Department of Natural Resources (DNR) for July 1, 2005, through April 30, 2008. Audits like this help us move closer to our goal of excellence in internal operations.

The DNR anticipated a number of the administrative findings, since the three-year period of the audit was a time of personnel changes and major policy reforms within the department. Our resulting transition to a more aggressive performance management and financial control system was not without error. Yet prior to completion of the audit, we had addressed the majority of the concerns identified in the findings.

We are now positioned to lead the state with a robust internal audit process. We have restructured to increase accountability, guarantee appropriate sources and uses of funds, enhance compensating controls and establish tracking systems that allow for ongoing review and improvement of all department policies and procedures.

In addition, we have developed an innovative and completely automated system for monitoring employee cell phone use that may eventually be a model for all state agencies.

Finally, some of the audit findings highlight very unusual personnel circumstances that prevented back-up systems from functioning or events that resulted in the discharge of an employee. We have taken all reasonable steps to insure that such circumstances do not lead to audit irregularities, but recognize that anomalies will occur and should not imply insufficient oversight of our operations.



Audit Finding 1: The Department of Natural Resources (DNR) allocated certain state aid to the Game and Fish Fund in excess of the statutory amount.

Audit Recommendation:

- ***The department must annually adjust its fund allocation of Police State Aid so that the allocation reflects each fund's share of conservation officers' compensation, as required by statute.***

Resolved: The department concurs with the above audit recommendation related to the allocation of Police State Aid, and our latest submission to the Department of Finance (Calendar Year 2007- processed in Fiscal Year 2009) reflected such an allocation. Future annual allocations of Police State Aid will be based on conservation officer compensation by fund for the appropriate calendar year pursuant to the statute.

Audit Finding 2: The department did not fully reimburse the Game and Fish Fund for costs associated with its hosting of the North American Wildlife Enforcement Officers Association's annual conference.

Audit Recommendation:

- ***The department should reimburse the Game and Fish Fund from the General Fund for all inappropriate costs identified in the special review.***

Not resolved: The department allocated costs identified in the special review to the various funds within the Enforcement program using two methods. Non-salary costs for law enforcement officers were allocated based on the post eligible credits from the conference and the applicability of the specific subject matter to work associated with various funds. Non-salary costs for other personnel and the salary costs identified were allocated based on the division's five-way funding split, which is normally used for allocating vacation pay, holiday pay, severance pay, etc. During FY08, this allocation method was shared with Office of the Legislative Auditor (OLA) prior to being implemented. Because the Fiscal Year 2008 books are now closed, the DNR will work with the Department of Finance to determine if this new recommendation can be implemented. As an alternative, the department will review North American Wildlife Enforcement Officers Association (NAWEOA) spending in all dedicated accounts and reduce future spending in those accounts to restore the account balances.

Person responsible for resolving: Jerry Hampel, DNR Office of Management and Budget Services (OMBS), Assistant Administrator

Date to be resolved by: June 30, 2009

Audit Finding 3: The Department of Natural Resources did not effectively monitor payroll allocations to the Game and Fish Fund.

Audit Recommendations:

- *The department should review methods used to allocate payroll charges to ensure that the methods reasonably approximate actual work performed by employees.*
- *The department should monitor payroll allocations to ensure that payroll charges are consistent with the allocation methods authorized.*
- *The department should review payroll costs charged to the Game and Fish Fund and its dedicated accounts to identify other payroll allocation errors.*
- *To the extent possible the department should adjust the accounting records to correct the allocation errors noted in this finding and through its review.*

Partially resolved: The department concurs with the above audit recommendations. The department will require that payroll funding be tied to the budget and resulting work plans. As part of the annual spending plan process, we will require units which use dedicated funding for salaries to document and receive approval for how they will charge payroll costs including allocating non-productive hours (sick leave, holidays, vacations, severance, etc.) and mass retro pay transactions caused by delayed settlements with bargaining units. Since the most significant of these costs are accrued over many years, we feel an aggregate allocation by program is appropriate for these costs.

The department concurs with the above audit recommendation related to reviewing current payroll charging and allocations to the Game and Fish Fund. The Office of Management and Budget Services (OMBS) will develop reports that can be compared to payroll charge methods and allocations approved in the spending plan process.

The DNR will discuss with the Department of Finance the feasibility of correcting prior year transactions.

The audit states that the matrix is created with information from the GFF Budgetary Oversight Committee (BOC). This is not accurate. The matrix provides general guidance to division field staff. M.S. 97A.055 Subd. 4b. states that the BOC's role is to review the reports prepared under subdivision 4; review the proposed work plans and budgets for the coming year; propose changes in policies, activities, and revenue enhancements or reductions; review other relevant information; and make recommendations to the legislature and the commissioner for improvements in the management and use of money in the game and fish fund.

Person responsible for resolving: Linda Notch, DNR OMBS, Business Services Section Manager

Date to be resolved by: July 1, 2009

Audit Finding 4: Prior Finding Partially Resolved: The department did not fully implement a mitigating control to reduce the risk of incompatible access to the state's accounting system.

Audit Recommendation:

- *The department needs to ensure that divisions conduct the monthly review of payments designed to mitigate incompatible duties and reduce the risk of errors and fraud.*

Resolved: The department concurs with the above audit recommendation related to assuring that divisions conduct compensating controls monitoring on a monthly basis. The business services manager in OMBS currently sends reminders to each unit monthly and if non compliant, notification will be given to division management and division directors will be held accountable for ensuring these reviews are occurring. Also, this requirement is reported and discussed with senior managers and the commissioner's office during the quarterly reporting process. An onsite review of the compensating controls process is done annually for each division by OMBS. This schedule will result in each division being comprehensively reviewed at least once a year.

Audit Finding 5: The department did not establish guidelines for divisions to use in determining their allocation of central support services to available funding sources.

Audit Recommendations:

- *The department should establish guidelines for acceptable allocation methods for its divisions to use when allocating central support service costs to funding sources.*
- *The divisions should retain documentation to support their allocations of central support services costs.*
- *The department should review its divisions' past allocations of central support services costs and, to the extent possible, adjust the allocations to more reasonably approximate the actual cost of those services to the dedicated funding sources.*

Partially resolved: The department partially concurs with the above audit recommendation regarding allocation of central support services. After consulting with the commissioner, OMBS will establish guidance to divisions and bureaus regarding appropriate funding sources and allocation methods for central support service costs. DNR divisions will be required to document their individual allocation methodology.

The department does not have the authority to open closed fiscal years to adjust previous allocations. Previous allocations primarily reflect the way in which the legislature chose to directly fund central support services in the past.

Person responsible for resolving: Jerry Hampel, DNR OMBS, Assistant Administrator

Date to be resolved by: July 1, 2009

Audit Finding 6: The department did not safeguard its fixed assets by performing required annual physical inventories or properly recording fixed asset purchases in its fixed asset tracking system.

Audit Recommendations:

- *The department should perform an annual physical inventory of its fixed assets as required by its Property Management Policy.*
- *The department should review its procurement process to ensure that it accurately identifies fixed assets purchased and updates those assets to its physical inventory records.*
- *The department should submit the Stolen, Lost, Damaged, or Recovered Property Reports to the appropriate authorities when appropriate.*

Resolved: The department concurs with these recommendations and has completed its calendar year 2007 inventory of fixed assets and appropriately updated the database to ensure accuracy. All copies of Stolen, Lost, Damaged, or Recovered Property Reports on file were sent to the Office of the Legislative Auditor in August 2008. In addition, the department is currently underway with a new fixed asset inventory to identify and update the database for calendar year 2008. The department has recently authorized adapting a procurement management information system that will improve management of the process and results, including identifying and capturing fixed and sensitive asset information.

Audit Finding 7: Two employees approved purchases that exceeded their local purchasing authority.

Audit Recommendation:

- *The department should ensure that employees only approve purchases consistent with their purchasing authority.*

Resolved: The department concurs with the above audit recommendation related to approval of purchases consistent with purchasing authority. The department has imposed strict limits on the number of DNR employees who are authorized to have purchasing authority at various levels and training was also mandated for all DNR employees with purchasing authority. This training includes all aspects of Authorized Local Purchase (ALP) authority and emphasizes, among other things, not exceeding the authority given under any circumstances. The only exception allowed will be emergency purchases when life or property is endangered. Participants are also clearly instructed that they do not have the authority to sign contracts or leases unless they have a written delegation order from the commissioner.

Audit Finding 8: The Fish and Wildlife Division used Game and Fish Fund resources to pay in advance for work done in the next fiscal year.

Audit Recommendation:

- ***The department and its divisions should not pay invoices until goods or services are received and should prohibit advance billing for interdepartmental services.***

Resolved: *Minnesota Statute 16A.41* refers to claims against the state. The intra-agency transaction cited in the audit was not a claim against the state and resulted in no funds being disbursed from the state treasury. *Minnesota Statute 84.0856* authorizes the commissioner of DNR to bill organizational units within the DNR for the costs of providing them with equipment. The statute gives the commissioner broad discretion in determining the nature of such charges. The cost of the equipment was paid from the fiscal year 2007 fleet account; therefore, the payment to the fleet account from fiscal year 2007 was appropriate. The department concurs that services (labor) should only be paid from the fiscal year in which they were provided and the department will provide additional direction to ensure we comply with that principle. Acquisition costs for equipment and customization to make such equipment suitable for unique DNR duty is different.

Audit Finding 9: The department did not always have sufficient payment documentation.

Audit Recommendation:

- ***The department should retain supporting documentation for all of its transactions, as required by statute.***

Partially resolved: The department concurs with the above audit recommendation to retain payment supporting documentation. The current Records Retention Schedule does require retention of such documents. DNR is conducting mandatory records retention training for all accounts payable personnel in fiscal year 2009.

Person responsible for resolving: Jerry Hampel, DNR OMBS, Assistant Administrator

Date to be resolved by: May 1, 2009

Audit Finding 10: The department did not always identify expenditures correctly in the state's accounting system.

Audit Recommendation:

- *The department should ensure that it correctly codes all financial activity in the state's accounting system.*

Partially resolved: The department concurs with the above audit recommendation relating to correctly coding all financial activity in the state's accounting system.

Activities to address this finding include:

- Distribute and discuss MAPS Point of Entry documentation with DNR accounting staff
- Review object code selections during compensating reviews
- Monitor compensating controls monthly
- Conduct periodic site review for all locations by internal audit review
- Update state purchasing card policy and standardize form to code expenditure payments
- Provide training on completion of forms to include correct object codes used in purchasing card payments.

Person responsible for resolving: Linda Notch, DNR OMBS, Business Services Section Manager

Date to be resolved by: July 1, 2009

Audit Finding 11: Prior Finding Not Resolved: The department did not review a key report to validate self service time entry payroll transactions.

Audit Recommendation:

- *The department should review the Self Service Time Entry Audit Report each pay period to ensure that employees are completing their own timesheets, and primary supervisors are approving the time.*

Resolved: The DNR concurs with the above audit recommendation related to reviewing the Self Service Time Entry Audit Report. Effective January 1, 2009, the Human Resources' Operations Manager has implemented a self-service audit schedule. The schedule will identify specific divisions for each payroll period where random payroll departments will be reviewed and will include a comprehensive audit for the last pay period of each quarter. This schedule will result in each division being comprehensively reviewed each quarter and random payroll departments in each division being reviewed at least three times a year.

Audit Finding 12: Prior Finding Not Resolved: The department did not always deposit its receipts in a timely manner.

Audit Recommendations:

- *The department should deposit daily receipts exceeding \$250 in a timely manner.*
- *The department should record all pertinent information in the receipt log.*

Resolved: The department concurs with the above audit recommendation related to recording all pertinent information in the receipt log. A deposit log system is in place and OMBS revenue personnel are aware they must complete each column, which includes a column labeled "deposit date." Staff responsible for deposits will monitor this daily and begin recording unusual circumstances that may have occurred in a given day.

Two of the samples pulled occurred during a time period when several staff were on vacation. A back up person had an unexpected family emergency. Since this timeframe, two additional staff have been cross-trained to assist as needed, should this happen again. In addition, the DNR will request a deposit waiver from Finance to cover such extraordinary circumstances.

Audit Finding 13: The department did not identify personal use of cell phones by its employees.

Audit Recommendations:

- *The department should monitor employees' compliance with the requirement that employees identify and reimburse for personal cell phone usage. Supervisors should document monthly reviews of employees' cell phone billing statements.*
- *The department should amend its cell phone policy to align with the federal and state cell phone regulations.*

Audit Finding 14: The department did not control its assignment of cell phones or conduct annual service plan reviews.

Audit Recommendation:

- *The department should improve control over state -issued cell phones and cell phone service plans by:*
 - performing inventories and periodic spot checks of issued cell phones;*
 - obtaining signed acknowledgement of receipt forms from each employee assigned a phone; and*
 - conducting and documenting annual reviews of cell phone service plans.*

Partially resolved: The department concurs with the above audit recommendations.

The DNR has developed and is now testing a database to import cell phone use data directly from cell phone companies with state contracts. The database will track and retain for audit purposes employee documentation of receipt of a state-issued cell phone, acknowledgement of state and department policies regarding appropriate use of state cell phones, employee identification of personal, business, and essential calls from state-issued cell phones, and supervisory reviews of all call detail. A paper process is being established for those few occasions where state contract cellular service is not available.

The DNR cell phone policy/procedure is being rewritten to provide specific direction to employees, supervisors, database managers, and internal auditors. The policy will fully comply with both federal and state regulations. Reconciliation reports, exception reports and others will be available to facilitate appropriate oversight.

Person responsible for resolving: Jerry Hampel, DNR OMBS, Assistant Administrator

Date to be resolved by: March 1, 2009

Audit Finding 15: The department's purchasing cardholder agreement lacked essential statements required by state policy.

Audit Recommendation:

- *The department should use the state's purchasing card acknowledgement form or amend its cardholder agreement to include all acknowledgements and restrictions addressed in the state policy.*

Resolved: The department resolved this finding prior to the close of the audit. All DNR employees with purchasing card agreements prior to that date have been required to sign new agreements containing the required language.

Audit Finding 16: The department did not control purchasing and travel cards assigned to employees.

Audit Recommendation:

- *The department should improve monitoring controls over purchasing and travel cards by:*
 - *documenting current cardholder agreements and applications for all users;*
 - *establishing a change control document to promptly initiate card cancellations when employees change positions;*
 - *maintaining a current list of certification dates for all cardholders.*

Resolved: The department concurs with some of the above audit recommendation related to the control of purchasing and travel cards. We have established documentation of all

current cardholder agreements and applications for all users. We have modified the application and agreement documents; created and distribute regularly to the card program supervisor an employee severance report; and have revised our policy to establish change control documents.

The DNR maintains a list of certification dates for Expanded Authority for Local Purchase (EALP) certified employees (up to \$10,000) and also higher special delegations, and now coordinates the purchasing card authority with the current EALP authority. These are the only ones the Department of Administration re-certifies periodically. The vast majority of DNR cardholders (about 97%) does not possess this level of authority and therefore have no certification date.

Audit Finding 17: The department did not establish control over special expense claims.

Audit Recommendation:

- ***The department should not pay costs related to special expenses unless there is evidence that those expenses had appropriate, advanced authorization and costs did not exceed the authorized limit.***

Partially resolved: The department concurs with the above audit recommendation related to ensuring that both the nature and the amount of all special expense claims have been properly authorized prior to payments being made. The department has distributed the revised special expense policy/procedure. The DNR will also include special expense payment processing in mandatory training for all accounts payable staff in fiscal year 2009.

Person responsible for resolving: Jerry Hampel, DNR OMBS, Assistant Administrator

Date to be resolved by: May 1, 2009.

Again, thank you for the opportunity to respond to the audit findings and recommendations.

Sincerely,



Mark Holsten, Commissioner
Department of Natural Resources