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**OFFICE OF THE LEGISLATIVE AUDITOR**  
**STATE OF MINNESOTA**

Management Letter

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**Department of Natural Resources**  
**Fiscal Year Ended June 30, 2000**



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**MARCH 15, 2001**

**01-14**

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## Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately fifty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year and one best practices review.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of Representatives and Senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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All OLA reports are available at our Web Site: <http://www.auditor.leg.state.mn.us>

If you have comments about our work, or you want to suggest an audit, investigation, evaluation, or best practices review, please contact us at 651-296-4708 or by e-mail at [auditor@state.mn.us](mailto:auditor@state.mn.us)

## Department of Natural Resources

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### Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Christopher Buse, CPA, CISA	Audit Manager

### Exit Conference

We discussed the findings and recommendations in this report with the following staff of the Department of Natural Resources on March 5, 2001:

Steve Morse	Deputy Commissioner
Kurt Ulrich	Assistant Commissioner for Administration
Peggy Adelman	Chief Financial Officer
Jerry Hampel	Business Services Manager

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## Report Summary

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### Key Finding and Recommendation:

- The Department of Natural Resources did not properly code certain revenue and expenditure transactions in the Minnesota Accounting and Procurement System. Agencies that do not follow coding standards cause unnecessary delays in the financial reporting process and increase the possibility of material errors or omissions in the state's Comprehensive Annual Financial Report. (Finding 1, page 3)

**Management letters** address internal control weaknesses and noncompliance issues found during our annual audit of the state's financial statements and federally-funded programs. The scope of work in individual agencies is limited. During the fiscal year 2000 audit, our work at the Department of Administration focused on selected components of the state's Internal Services Funds and selected building construction projects. The department's response to our recommendations is included in the report.



**OFFICE OF THE LEGISLATIVE AUDITOR**  
**State of Minnesota • James Nobles, Legislative Auditor**

Representative Dan McElroy, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Allen Garber, Commissioner  
Department of Natural Resources

We have performed certain audit procedures at the Department of Natural Resources as part of our audit of the financial statements of the State of Minnesota for the year ended June 30, 2000. We emphasize that this has not been a comprehensive audit of the Department of Natural Resources.

Table 1 identifies the financial activities within the Department of Natural Resources that were material to the state's financial statements. We performed certain audit procedures on these activities as part of our objective to obtain reasonable assurance about whether the State of Minnesota's financial statements for the year ended June 30, 2000, were free of material misstatement.

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**Table 1**  
**Activities Material to the State's Financial Statements <sup>(1)</sup>**  
**Fiscal Year 2000**

<u>Revenue Areas</u>	<u>Amount</u>
Timber Sales <sup>(2)</sup>	\$ 11,308,783
<u>Expenditure Areas</u>	
Humboldt Avenue Greenway Grants	\$3,342,378
Flood Damage Reduction Grants	6,369,663

(1) Our audit scope also included certain Division of Forestry transfers from the Permanent School Fund to the General Fund, totaling \$4,779,498.

(2) Amount does not include General Fund sales.

Source: Selected accounts in the Minnesota Accounting and Procurement System.

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Our audit work also included a review of selected financial statements in the state's Comprehensive Annual Financial Report that were prepared by the Department of Natural Resources. These financial statements included the Game and Fish Fund and the Natural Resources Fund.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

# Department of Natural Resources

## Conclusions

Our December 1, 2000, report included an unqualified opinion on the State of Minnesota's general purpose financial statements included in its Comprehensive Annual Financial Report for the year ended June 30, 2000. In accordance with *Government Auditing Standards*, we also issued our report, dated December 1, 2000, on our consideration of the State of Minnesota's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

As a result of our audit procedures, we identified the following weakness in internal control at the Department of Natural Resources:

### **1. Certain revenue and expenditure transactions were not properly coded in the Minnesota Accounting and Procurement System.**

The Department of Finance made significant adjustments to the state's financial statements because the Department of Natural Resources did not properly code many of its transactions. The Department of Finance has standard procedures for coding transactions in the state's accounting system. These standards help financial reporting professionals prepare consistent financial statements that conform with generally accepted accounting principles. Agencies that do not follow these standards cause unnecessary delays in the financial reporting process. They also increase the possibility of material errors or omissions in the state's Comprehensive Annual Financial Report.

The Department of Finance tests selected transactions to identify those coded to improper accounting periods. When coding errors are found, the Department of Finance makes adjustments to prevent distortions in the state's financial statements. When preparing the fiscal year 2000 Comprehensive Annual Financial Report, financial reporting professionals made adjustments totaling \$4,200,317 to remedy coding errors made by the Department of Natural Resources. They also made adjustments totaling \$7,942,558 when preparing the fiscal year 1999 financial statements.

Our auditors also identified many coding errors while testing transactions at the Department of Natural Resources. For example, many timber sales revenue transactions that we reviewed were not coded to the proper financial reporting period. When questioned, the department told us that deficiencies in one of its computer systems made it difficult to accurately code these transactions. We also found many grant expenditures that were not properly coded.

### *Recommendation*

- *The department should ensure that its accounting staff understands and follows pertinent financial reporting policies.*

## Department of Natural Resources

This report is intended for the information of the Legislative Audit Commission and the management of the Department of Natural Resources. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 15, 2001.

*/s/ James R. Nobles*

James R. Nobles  
Legislative Auditor

*/s/ Claudia J. Gudvangen*

Claudia J. Gudvangen, CPA  
Deputy Legislative Auditor

End of Fieldwork: December 1, 2000

Report Signed On: March 12, 2001

Minnesota Department of Natural Resources  
OFFICE OF THE COMMISSIONER  
500 Lafayette Road  
St. Paul, Minnesota 55155-4037

March 9, 2001

Mr. James R. Nobles, Legislative Auditor  
Office of the Legislative Auditor  
First Floor, Centennial Office Building  
658 Cedar Street  
St. Paul, Minnesota 55155

Dear Mr. Nobles:

Thank you for the opportunity to respond in writing to the audit of the Department of Natural Resources for the year ended June 30, 2000.

**Finding: Improper coding of some revenue and expenditure transactions in the Minnesota Accounting and Procurement system.**

Your audit finds that we failed to correctly code certain revenue and expenditure occurrence dates in accordance with standard Department of Finance procedures and that these errors caused delays in preparation of the state's financial statements due to the need to make adjustments to compensate for our errors. Your audit finding recommends that we ensure our accounting staff understand and follow pertinent financial reporting policies. For expenditure transactions we fully agree with your recommendation and though the Department of Finance has never informed us about the errors they have discovered, we will nonetheless provide all accounting personnel with the pertinent policies and advise accounting staff about the importance of following them. We will also work with the Department of Finance to ensure we are notified of any deficiencies in this area in the future so we can effectively monitor compliance with these pertinent policies. With regard to revenue transactions we are limited in our response by an antiquated revenue processing system that makes it impractical to accomplish your recommendations. We have however in our current budget request included a reallocation of funds to allow us to replace this old revenue system with an updated accounts receivable/revenue system which will be designed to address the weakness identified in your recommendation as well as others we are aware of.

Yours truly,

*/s/ Allen Garber*

Allen Garber  
Commissioner

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