



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Management Letter

Department of Natural Resources
Fiscal Year Ended June 30, 2001



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

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
Jeanine Leifeld, CPA, CISA	Audit Manager
Mike Willis, CPA, CIA	Auditor-in-Charge
Rob Litchke	Intern

Exit Conference

We discussed the findings and recommendations in this report with the following staff of the Department of Natural Resources on January 22, 2002:

Allen Garber	Commissioner
Steve Morse	Deputy Commissioner
Peggy Adelman	Management and Budget Administrator
Jerry Hampel	Business Services Manager
Lyle Mueller	Financial Analysis and Reporting

Report Summary

Key Finding and Recommendations

- The Department of Natural Resources (DNR) did not properly record certain expenditure transactions in the state's accounting system. We found many instances in which the DNR did not use the correct record date to record expenditure transactions on the Minnesota Accounting and Procurement System (MAPS). We recommended that DNR ensure that transactions are recorded on MAPS using the correct record dates.

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 our work in individual agencies is limited. During the fiscal year 2001 audit, our work at the Department of Natural Resources included an audit of timber sale and iron ore rent and royalty revenues, metro regional trail and park acquisition grants, flood hazard mitigation grants, office facility consolidation expenditures, and critical habitat expenditures. The department's response to our recommendation is included in the report.



Senator Ann H. Rest, 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 as of and for the year ended June 30, 2001. 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 programs as part of our objective to obtain reasonable assurance about whether the State of Minnesota’s financial statements for the year ended June 30, 2001, were free of material misstatement.

Table 1
Department of Natural Resources
Programs Material to the State’s Financial Statements
Fiscal Year 2001

	<u>Amount</u>
Revenue Areas	
Timber Sales ⁽¹⁾	\$ 12,593,561
Iron Ore Rents and Royalties ⁽¹⁾	5,295,837
Expenditure Areas	
Metro Regional Trails and Park Acquisition Grants ⁽²⁾	\$ 8,782,398
Flood Hazard Mitigation Grants ⁽²⁾	8,270,982
Office Facility Consolidation ⁽²⁾	4,295,035
Reinvest in Minnesota Critical Habitat ⁽²⁾	2,600,714

- (1) Selected revenues
- (2) Selected expenditures

Note: Our audit scope also included a statutory transfer from the Permanent School Fund to the General Fund, totaling \$5,948,996 for fiscal year 2001.

Source: *State of Minnesota Comprehensive Annual Financial Report* and selected accounting within the Minnesota Accounting and Procurement System (MAPS) for fiscal year 2001.

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

Department of Natural Resources

Conclusions

Our December 7, 2001, report included an unqualified opinion on the State of Minnesota's general purpose financial statements. In accordance with *Government Auditing Standards*, we have also issued our report, dated December 7, 2001, 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 procedures, we identified the following weakness in internal control at the Department of Natural Resources.

1. PRIOR AUDIT FINDING PARTIALLY RESOLVED: The Department of Natural Resources did not properly record certain expenditure transactions in the state's accounting system.

We found many instances in which the DNR did not use the correct record date to record expenditure transactions on the Minnesota Accounting and Procurement System (MAPS). The record date field on MAPS should be the date on which the state incurred an obligation to pay for goods or services. However, in most instances, DNR used the date on which the invoice for goods or services was received from the vendor or grantee as the transaction record date. For example, DNR entered all 41 of the expenditures that we tested in our audit of an office facility consolidation project using incorrect record dates. In the Metro Regional Trails and Park Acquisition grant expenditure program, 13 of the 16 expenditures tested were entered using incorrect record dates. Department of Finance guidelines require state agencies to use the date that goods or services are received as the record date. In the case of grant expenditures, the DNR should have recorded a liability and expenditure on the date that the grant recipient received the related goods or services. The use of incorrect record dates increases the risk that liabilities may be understated in the state's financial statements.

Recommendation

- *The Department of Natural Resources should ensure that transactions are recorded on MAPS using correct record dates.*

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 January 31, 2002.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: November 30, 2001

Report Signed On: January 25, 2002

**Status of Prior Audit Issues
As of November 30, 2001**

March 15, 2001, Legislative Audit Report 01-14 examined the DNR activities and programs material to the State of Minnesota's Annual Financial Report for the year ended June 30, 2000. The management letter included one finding, relating to the coding of certain revenue and expenditure transactions in the state's accounting system. Although we noted some improvement in DNR's transaction coding, we cite additional examples of improper coding in Finding 1 of the current report.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.



**Minnesota Department of Natural Resources
OFFICE OF THE COMMISSIONER**

500 Lafayette Road
St. Paul, Minnesota 55155-4037

January 23, 2002

Mr. James R. 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 financial audit of selected programs of the Department of Natural Resources for the year ended June 30, 2001.

Audit Finding: DNR did not properly record certain expenditure transactions in the Minnesota Accounting and Procurement System (MAPS).

Audit Recommendation: DNR should ensure that expense transactions are recorded in MAPS using the correct record dates.

Your audit finding states the DNR failed to code certain expenditure transactions with the proper occurrence dates as specified in Department of Finance accounting procedures. These errors are significant because the incorrect date does not accurately record the expense in the proper accounting period. The transactions cited involve using the date the invoice was received as the occurrence date. When the expenses were paid in MAPS by DNR accounting staff, the expenses were not recorded in the fiscal year that goods or services were received. Consequently, agency expenses were understated in FY2001, and overstated in the subsequent fiscal year.

The DNR concurs with your recommendation. Jerry Hampel, Business Services Section Manager, and his staff will work to resolve this deficiency and to monitor on-going adherence to DOF accounting procedures. They will work directly with the business and accounting staff in the DNR divisions where problems were found. Business Services staff will use the incorrectly coded payments as training examples of expense transactions that must be processed in MAPS in a certain manner to ensure the accurate recording of expenses. Training will also be provided to all DNR accounts payable staff to reinforce how, when and why this accounting procedure is applied. Business Services will have completed this training by the end of March 2002.

Again, thank you for the opportunity to respond to your audit finding and recommendation.

Sincerely,

/s/ Allen Garber

Allen Garber
Commissioner, Department of Natural Resources