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OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Department of Natural Resources
July 1, 1999, through June 30, 2002

OCTOBER 17, 2002 **02-65**

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.

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

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Allen Garber, Commissioner
Department of Natural Resources

We have audited selected revenues and expenditures within the Department of Natural Resources for the period July 1, 1999, through June 30, 2002. Our audit scope included payroll, license center revenues and cost allocations, tree nursery revenues and expenditures, and fleet management revenues and expenditures. The audit objectives and conclusions are highlighted in the individual chapters of this report.

We conducted our audit in accordance with *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the Department of Natural Resources complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of the Department of Natural Resources is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

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 October 17, 2002.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: August 16, 2002

Report Signed On: October 14, 2002

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Audit Participation

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

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Ellen Sibley, CPA, CIA	Senior Auditor
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Exit Conference

We discussed the results of the audit with the following staff of the Department of Natural Resources at an exit conference on October 1, 2002:

Steve Morse	Deputy Commissioner
Peggy Adelmann	Chief Financial Officer
Mary O'Neill	Human Resources Administrator
Patricia Burt	Human Resources Assistant Administrator
Kim Bonde	Assistant Commissioner, Administration
John Bouthilet	Accounting Director, Forestry
Tom Baumann	Forest Management Supervisor
Doug Anderson	Forestry Community and Private Lands Supervisor
John Burns	Internal Audit Director
Jerry Hampel	Business Services Manager, Office of Management and Budget Services
Kim Elverum	Assistant Administrator, Information, Education & Licensing Bureau

Report Summary

Key Findings:

- The department issued license and registration refunds without statutory authority and did not have adequate controls in place to ensure that all refunds were appropriate. (Finding 2, page 12)
- The department did not have adequate controls over incoming license and tree nursery receipts. (Findings 3 and 8, pages 13 and 21)
- The department did not verify the overall reasonableness and accuracy of its license receipts. (Finding 4, page 14)
- The department did not suspend license agents who failed to maintain an adequate bank balance to cover their license sales. (Finding 5, page 15)
- The department did not adequately limit and monitor access to its computer systems. (Findings 6 and 17, pages 15 and 30)
- The department did not have adequate documentation for its specially designed tree nursery computer system. (Finding 9, page 21)
- The department did not have sufficient documentation to support its tree prices. (Finding 10, page 22)
- The department does not periodically review all pricing factors to ensure rates are accurate and that it is properly charging vehicle users. (Findings 13 and 14, pages 28 and 29)
- The department does not review and verify the appropriateness of fuel credit card charges. (Finding 16, page 30)

This audit report represents the conclusions of our selected scope audit of the Department of Natural Resources. Our audit scope included payroll expenditures, license center revenues and cost allocations, tree nursery revenues and expenditures, and fleet management revenues and expenditures for the period from July 1, 1999, through June 30, 2002. The department's response to the audit findings is included in the report.

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Chapter 1. Introduction

The Department of Natural Resources (DNR) is responsible for protecting and managing the state's natural resources, providing outdoor recreation opportunities, and providing for commercial uses of natural resources in a way that creates a sustainable quality of life. The department is organized into nine operating divisions and five support bureaus and maintains regional offices throughout the state. The regional offices have personnel representing the department's various divisions as well as a regional administrator who coordinates the department's efforts throughout the region. DNR's activities are primarily funded by legislative appropriations, federal grants, and by user fees, which are deposited into dedicated accounts and then appropriated to the agency. The department's financial activity is recorded on the state's accounting and procurement system (MAPS). The current commissioner of the agency is Allen Garber.

This was a selected scope audit. It focused on selected revenue and expenditure areas for the period from July 1, 1999 through June 30, 2002. We limited our audit coverage to payroll expenditures, DNR license center revenues and license center cost allocations, DNR tree nursery revenues and expenditures, and DNR fleet management revenues and expenditures.

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Chapter 2. Payroll Expenditures

Chapter Conclusions

The Department of Natural Resource's internal controls generally provided reasonable assurance that employees were accurately compensated in compliance with applicable legal provisions and management's authorizations, and that payroll expenditures were properly recorded in the accounting records and allocated to the proper projects and funding sources. However, the department should improve controls by providing for an independent review of certain payroll system reports. For the items tested, the department compensated employees in compliance with material finance-related legal provisions, including collective bargaining agreements and personnel plans.

The Department of Natural Resources employs approximately 3,000 employees in four regions - Northwest, Northeast, Central, and South - throughout the state as well as in the department's central office in Saint Paul. While the Bureau of Human Resources is centralized at the Saint Paul office, payroll processing is decentralized within the department. Every region, as well as the central office, performs its own payroll processing functions. The department compensates employees according to the provisions of a wide variety of compensation plans and bargaining unit agreements, including the following:

- American Federation of State, County, and Municipal Employees
- Minnesota Government Engineers Council
- Minnesota Law Enforcement Association
- Minnesota Association of Professional Employees
- Middle Management Association
- Commissioner's Plan
- Managerial Plan

Table 2–1 shows department payroll expenditures by type for fiscal years 2000, 2001, and 2002.

Table 2–1 DNR Payroll Expenditures
Fiscal Years 2000 to 2002

	2000	2001	2002
Full-Time	$114,470,653	$122,487,447	$127,556,810
Part-Time	18,695,278	20,317,686	19,071,968
Overtime Pay	4,442,246	5,330,298	5,083,311
Premium Pay	766,375	652,166	891,387
Other Benefits	5,494,671	6,626,252	5,614,623
Total Payroll	$143,869,223	$155,413,849	$158,218,099

Source: Minnesota Accounting and Procurement System (MAPS) as of June 30, 2002.

Department of Natural Resources

Objectives and Methodology

During our review of payroll expenditures, we focused on the following objectives:

- Did the department ensure that employees were paid in accordance with collective bargaining agreements and in compliance with applicable finance-related legal provisions?

- Were payroll transactions properly recorded on the state's personnel and payroll system (SEMA4) and on the state's accounting system (MAPS)?

- Did the department allocate employee payroll expenditures to the proper projects and funding sources?

To meet these objectives, we interviewed department employees to gain an understanding of the internal controls over personnel and payroll. We analyzed employee salaries and tested SEMA4 payroll transactions to determine if the department properly authorized, processed, and recorded the transactions in compliance with applicable legal provisions governing payroll.

Conclusions

The Department of Natural Resource's internal controls generally provided reasonable assurance that employees were accurately compensated in compliance with applicable legal provisions and management's authorizations, and that payroll expenditures were properly recorded in the accounting records and allocated to the proper projects and funding sources. However, as discussed in Finding 1 below, the department needs to improve payroll input controls by providing for an independent review of the SEMA4 payroll system reports. For the items tested, the department compensated employees in compliance with material finance-related legal provisions, including employee collective bargaining agreements and personnel plans.

1. The central office did not always independently verify payroll transactions entered into the payroll system.

The central office did not consistently perform an independent verification of transactions entered into the state's payroll system (SEMA4). Many different DNR employees enter payroll data from information recorded on timesheets. They also enter special payroll types, such as lump sum (i.e., achievement awards) and retroactive payroll adjustment transactions. SEMA4 produces biweekly payroll registers. However, in many instances, the same clerks who input the payroll data also verified the hours, payrates, and special transactions on the payroll register report. SEMA4 Operating Policy and Procedure PAY0028 requires that agencies perform an independent review of the payroll register and payroll posting audit trail. A review by an independent staff person is intended to ensure that any payroll entry errors and labor distribution errors are detected and corrected.

Department of Natural Resources

Recommendation

- *The Department of Natural Resources should improve payroll controls by consistently performing an independent review of the SEMA4 payroll register and payroll posting audit trail to ensure proper input of timesheet hours, pay rates, and special transactions.*

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Chapter 3. License Center Revenue

Chapter Conclusions

We identified several weaknesses in the Department of Natural Resources internal controls over the license center, as well as certain instances of noncompliance with finance-related legal provisions. The findings included the following:

- ***The department issued refunds without statutory authority and did not have adequate controls in place to ensure that all refunds issued were appropriate.***
- ***The department did not adequately safeguard nor promptly deposit certain license receipts.***
- ***The department did not verify the overall reasonableness and accuracy of its license receipts.***
- ***The department did not suspend license agents who failed to maintain an adequate bank balance to cover their license sales.***
- ***The department did not adequately limit and monitor access to its computer systems.***
- ***The department did not verify that the allocations of License Center payroll were appropriate.***

For the items tested, license collections complied with applicable legal provisions.

The Department of Natural Resources collects fees for registration and titling of recreational vehicles and for hunting and fishing licenses. The Legislature establishes the individual fees in state statute. The License Center, which is responsible for all of these fees, contains three sections:

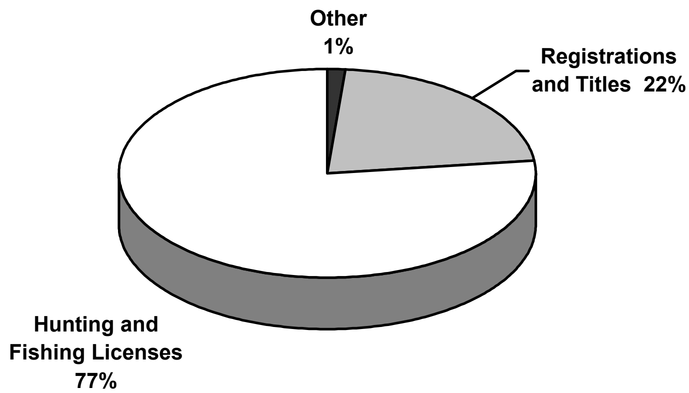
- The Licensing Section oversees the statewide sale of hunting and fishing licenses. It also manages commercial licensing, hunting lotteries, and the new lifetime license program.

- The Registration and Titling Unit oversees agent activity in watercraft titling and recreational vehicle registration and provides information to agents and the general public regarding titling and registration, laws, regulations, requirements, and procedures. This section provides registration and licensing for boats, snowmobiles, all-terrain vehicles, off-highway motorcycles, and off-road vehicles.

- The License Center Counter and Shipping Unit maintain a license and registration center, which is located in the St. Paul Central Office. Customers may purchase hunting and fishing licenses, as well as register boats, all-terrain vehicles, off-highway motorcycles and off-road vehicles, at the counter. Customers may also renew certain licenses, such as watercraft and off-road vehicles, through the mail.

Figure 3-1 shows the proportion of license fees collected by type for fiscal year 2001.

Figure 3-1
License Center Revenue Collected By Revenue Type
Fiscal Year Ended June 30, 2001



Source: Revenue reported on the Minnesota Accounting and Procurement System (MAPS) for fiscal year 2001.

Until March 2000, the department's hunting and fishing license system was paper-based. Under the paper-based system, the department annually preprinted and distributed approximately 2.5 million licenses, comprising nearly 50 different categories of fishing and hunting licenses and hunting lottery applications. The licenses were distributed to the state's 87 county auditors who in turn distributed them to approximately 2800 license agent locations across the state.

Recognizing the need to develop a more efficient method of issuing licenses and registering boats and recreational vehicles, the department formed a committee in 1995 to begin the process of developing and implementing a new license and registration system. The department reviewed proposals for the project from three vendors. Based on a review of these proposals, the department selected Central Bank of Missouri as the primary contractor to develop an electronic licensing system and began contract negotiations in June of 1998. A subcontractor handles the telecommunications, agent training, and support for the system.

The department installed the project in two tiers: Tier I – Hunting, Fishing and Cross-Country in March 2000 and Tier II – Registration and Titles in October 2001. The current Electronic Licensing System (ELS) has three components, as discussed below:

- The **point of sale** system uses an electronic device (i.e. credit card type terminal) to input customer data and send the data to the central computer located at Central Bank of Missouri for verification and storage. The terminal prints a license document at the location (or point) of sale. The point of sale process for hunting and fishing licenses became operational in March 2000.

- The **telephone ordering system** uses in-person staff, provided by an independent vendor, to receive and input customer information into an electronic database. The system required payment by credit card with a transaction fee added to the cost of the customer's license. The system issues an identification number, which serves as a temporary license until the customer receives an actual printed license. The electronic licensing telephone system also provides toll free access that allows conservation officers to verify licenses. The telephone ordering system went into service in April 1999.

- The **internet-based system** allows customers to order licenses on-line. The Internet site provides a method for customers to purchase cross-country ski passes, snowmobile trail stickers, hunting and fishing licenses, and to complete a hunting lottery application. It is similar to the telephone ordering system in that it provides license documentation by mail and a temporary number for use pending receipt of the license document. A $3.50 convenience fee is added to the total for each Internet license-purchasing session. The department estimates that the Internet site and the telephone ordering system provided less than one percent of the hunting and fishing licenses sold as of May 31, 2002. The Internet service became operational in March 2002.

The DNR has about 1,850 hunting and fishing license agents throughout the state, who sell licenses directly to the public via point-of-sale terminals. The department selects these agents through an application process, which is based on the type of business, previous sales, location, and number of competitors in the area. The department enters into an agreement with each approved agent. By using the point-of-sale system to process transactions, the agents enter all of the data necessary to issue licenses.

Deputy registrars also sell hunting and fishing licenses, as well as boat and recreational vehicle registrations for the department. The department selected the deputy registrars through an application process. Upon approval, the department enters into an agreement with the deputy registrar. In order to process registrations and titles using the new Electronic Licensing System (ELS), the department requires deputy registrars to provide a personal computer and Internet connection. The department also provided point-of-sale terminals to the deputy registrars for other transactions.

To offset the costs associated with processing registrations electronically, the department adds a $1.50 to each license transaction. The agent or deputy registrar keeps $1 and the department receives $.50. The statutory language, which allowed the collection/addition of a fee for electronic transactions, was included in Minn. Stat. (2001) Section 84.027, Subd. 5. Also, under the new ELS, deputy registrars are now allowed to handle several new types of transactions, such as issuing duplicate expiration decals. To offset the costs of processing these unique transactions, the department charged $3.50 per transaction, giving the deputy registrar $2 and the department $1.50.

Department of Natural Resources

Audit Objectives and Methodology

Our audit of License Center revenue focused on the following objectives:

- Did the department design internal controls to provide reasonable assurance that the appropriate amount of license and registration revenue was collected, adequately safeguarded, and properly reported in the accounting records?
- Did revenue collections comply with applicable legal and policy provisions?
- Did the department allocate License Center expenditures to the proper projects and funding sources?

To address these objectives, we interviewed appropriate License Center personnel to gain an understanding of the process of collecting and depositing receipts. In addition, we selected a sample of receipts and verified whether the fees were properly collected, adequately safeguarded, and properly reported in the accounting records. We focused primarily on the new electronic licensing system that the department began implementing in fiscal year 2000.

Conclusion

The Department of Natural Resources did not comply with finance-related legal provisions in two areas. First, the department issued refunds without proper statutory authority, as noted in Finding 2 below. In addition, the department did not daily deposit receipts over $250 as required by state statute and did not adequately safeguard mail receipts, as noted in Finding 3. We also identified several weaknesses in the department's internal controls over the license center, as discussed in Findings 4 through 7. In addition, as noted in Chapter 5, Finding 17, some employees who perform license center accounting functions on the state's accounting system have incompatible system access. For the items tested, license collections complied with applicable legal provisions.

2. The department issued refunds without statutory authority and did not have adequate controls in place to ensure that all refunds issued were appropriate.

In certain situations, DNR issues refunds for watercraft registrations and for hunting and fishing licenses, even though the department does not have express authority to do so. The department has never received statutory authority to issue refunds and does not have controls in place to ensure that refunds it makes are appropriate.

Although the department has been making fewer refunds since it implemented the Electronic Licensing System, it still allows refunds for registrations, provided the customer submits a written request with the unused decals or proof of watercraft sale. It also allows for hunting and fishing refunds due to agent errors, calls to military duty, and customer death and certain medical conditions. The department had the following weaknesses relating to the refund process:

- The department did not independently review refund transactions, including a verification of refunds reported in the revenue subsystem to supporting documentation. An independent review would provide assurance that the refund was legitimate. It is also especially important to review the refund transactions processed by DNR staff that have the ability to add, change, and delete transactions; invalidate license transactions; and record 'no fee' transactions in the Electronic Licensing System.

- The department did not adequately control the methods used by deputy registrars to issue refunds. The department's informal policy requires deputy registrars to forward written requests for refunds to the department for processing. However, in practice, deputy registrars are allowed to issue refunds either by giving cash back or returning a customer's check if they have not yet balanced the week's sales and receipts.

- The department did not adequately limit the timeframe for customers to request a registration refund. By allowing up to a year to submit unused decals for a refund, customers may try to carry a registration decal but not attach it to the vehicle unless questioned, and then apply for a refund at the end of the period.

- The department did not adequately restrict requests for refunds by previous watercraft owners. Currently, the previous owner can request a refund without providing the name and address of the new owner. The risk in this situation is that the previous owner requesting the refund may not have actually sold the boat.

Refunds are sensitive transactions because they represent decreases to cash collections. The lack of independent review and control over these transactions increases the risk that the amounts recorded as refunds could be inaccurate or inappropriate.

Recommendations

- *The department should obtain statutory authority before issuing refunds.*

- *If the department receives legal authority to grant refunds, it should design and implement internal controls to ensure that refunds granted to customers are appropriate.*

3. The department did not adequately safeguard nor promptly deposit certain license receipts.

The department did not adequately safeguard incoming receipts at the License Center. It also did not promptly deposit some receipts in accordance with Minn. Stat. (2001) Section 16A.275.

The License Center stores registration renewal checks received through the mail until the staff has time to process them. When the department receives renewals for snowmobiles, watercraft, and all-terrain vehicles, the mailroom opens the envelopes and delivers them to the License Center. Because the renewals peak at certain times of the year, license processing becomes backlogged. As a result, staff store the envelopes, with checks included, in mail trays in a storage room until they have time to input the license information into the computer system. The storage room is not locked during the day. Only after the information is posted are checks restrictively endorsed and prepared for deposit.

Minn. Stat. (2001) Section 16A.275 requires that "receipts should be deposited daily or when they total $250." In March 1992, the Department of Finance issued an exemption to DNR from the daily deposit requirements for watercraft and snowmobile renewals. However, the exemption was based on the existing licensing process at that time, and does not reflect the License Center's current operations. In addition, the department is using the exemption to justify a departure from the daily deposit requirement for all-terrain vehicle renewals, which were not included in the 1992 request. The department should adequately safeguard mail receipts that have not been processed. It should reconsider its need for a daily deposit exemption as a result of the efficiencies gained through its current Electronic Licensing System.

Recommendations

- *The department should adequately safeguard receipts by restrictively endorsing all checks immediately, and keeping all checks physically secure until deposited.*
- *The department should update their request for an exemption from Minn. Stat. Section 16A.275, if it is considered necessary.*

4. The department did not verify the overall reasonableness and accuracy of its license receipts.

The department also has not verified that the amount of actual receipts collected is reasonable in relationship to the number of licenses issued. For fiscal year 2000, the department's office of management and budget reconciled the number of licenses issued and the receipts recorded in the Electronic Licensing System (ELS) to the state's accounting system. However, since that time, there has been no overall independent reconciliation between the actual amount of cash and checks received and licenses issued. The department told us that it has problems obtaining the proper information from ELS to perform the reconciliation and that the reports generated for the hunting and fishing receipts do not provide adequate information to perform the reconciliation.

Recommendation

- *The department should perform periodic reconciliations to ensure that the number of hunting and fishing licenses, registrations, and titles issued by agents and the receipts recorded in the Electronic Licensing System match the revenue recorded in the state's accounting system.*

5. The department did not suspend license agents who failed to maintain an adequate bank balance to cover their license sales.

The department has not enforced the suspension provision in its contract with license agents. In some cases, agents have not maintained sufficient cash in their bank accounts to cover licenses sold. The department enters into contracts with the agents who sell hunting and fishing licenses. The contract states that "the department shall suspend this agreement until the agent returns to compliance if the department finds that the agent failed to have the financial stability or responsibility to act as an agent including, but not limited to, evidence of inadequate accounting records or failure to maintain sufficient funds from the sale of electronic licenses, registrations, titles, and stickers. . . . in the appropriate bank account."

Each week, based on Electronic Licensing System (ELS) totals, the State Treasurer's Office sweeps all license agents' designated bank accounts, transferring the amount of their sales receipts to a state account. Agents are required to have sufficient cash in their bank accounts to cover the license sales that have occurred. Agents can access ELS to verify the exact amount that the Treasurer's Office expects to take. If there are insufficient funds in the bank account on Thursday, when the Treasurer's Office sweeps the account, a fail occurs. From March 2000 to May 2002, 111 agents had a total of 406 fails. However, the department has only taken action to permanently suspend one of the agents.

The License Center has an informal policy that after three fails, the department temporarily shuts down the agent until the agent brings in a cashier's check for the failed draws. However, this policy is not consistently enforced. For example, one agent failed to have sufficient funds in the bank account nine times during the period from June 2000 to May 2002. After the seventh fail, the department took action and requested that the agent submit a cashier's check for the failed transaction.

Dealing with failed sweep attempts and retries is time consuming and tedious for the department. In addition, there is the potential for the department to suffer financial losses from agents who close their bank accounts.

Recommendation

- *The department should consistently enforce the provisions of its agent contracts concerning adequate funds on deposit in agent bank accounts.*

6. The department did not adequately limit and monitor access privileges to its Electronic Licensing System.

We found that the department granted an excessive number of users access to perform critical functions. Access to ELS is divided into security groups that are designed to separate duties. However, the department assigned many employees access to incompatible security groups. For example, 35 employees had access that allowed them to add, change, or delete transactions, or to create a "no charge" transaction in ELS. Cashiers in the license center were also assigned to incompatible security groups. For example, three license center employees have the ability to issue refunds. These transactions create a significant vulnerability since users could potentially conceal theft by invalidating a license and coding it as a refund. Furthermore, the department did not identify effective control methods to mitigate risks in situations where it was not feasible to avoid assigning a person incompatible functions.

The department also did not adequately document the access provided by each ELS security group and had not developed standard access profiles for particular job positions. Initially, when the department implemented the ELS, the security officers submitted clearances to Central Bank either on a point-of-sale access or a paper list of staff for which clearances were required. The Central Bank now allows ELS security officers to email approval for clearances, without the use of an access form.

Recommendations

- *The department should adequately document access provided by each group, develop security standards for job descriptions, document potentially incompatible security groups, and identify effective methods to mitigate risks when they cannot separate duties.*

- *The department should develop procedures to monitor system access and investigate excessive, as well as incompatible, clearances that currently exist. System access privileges should be based on job responsibilities.*

7. The department did not verify that the allocations of License Center payroll were appropriate.

The department did not review the distribution of payroll costs to verify that it properly allocated license center costs to all funds that received license revenue. Payroll is the largest expenditure in the License Center. At the beginning of each fiscal year, the department assigns an accounting code to each staff person in the License Center. The accounting code determines which fund the staff person's time will be charged to during the fiscal year. During the year, employees charge their time to various activity codes to represent actual work activities. The department has not done an analysis to verify that payroll funding is reasonable in relationship to activities actually charged by staff.

Before the Information and Education Bureau merged with the License Center in fiscal year 2000, the department annually reviewed the allocation of expenditures to the various funds in the License Center. At the end of a fiscal year, the department generated a Labor Distribution by Activity report. This report showed the number of hours and payroll cost charged to each activity. The department then determined the percentage allocation to each activity and adjusted the budget request for the next biennium to reflect the allocation of each activity in the first fiscal year of the current biennium. The department is no longer doing this annual analysis.

Recommendations

- *The department should develop formal policies for allocating License Center costs to the various funds for which License Center revenue is collected.*

- *The department should ensure that costs are pro-rated to the various funds to ensure that each fund is charged a consistent and equitable share of the costs.*

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Chapter 4. Tree Nursery Program

Chapter Conclusions

We identified several weaknesses in the Department of Natural Resources' internal control over the tree nursery program, as well as certain instances of noncompliance with finance-related legal provisions. The findings included the following:

- ***The department did not have adequate controls over incoming tree nursery receipts.***
- ***The department did not have adequate documentation for its specially designed tree nursery computer system.***
- ***The department does not have sufficient documentation to support its tree prices.***
- ***The tree nursery program had several weaknesses in its purchasing process.***
- ***The tree nursery program recorded transactions on the state's accounting system using incorrect record dates.***

The Forestry Division's Tree Nursery Program was established in 1931 to provide trees for private and public landowners. The General Andrews Nursery, located in Willow River, and the Badoura Nursery, located in Akeley, make up the Department of Natural Resources' Tree Nursery Program. Each location has approximately 300 acres. In 1996, the Legislature capped the number of trees to be sold at 10 million, but in 2002 the statute was changed to eliminate the cap until January 1, 2003.

The tree nurseries have their own computer system for tracking inventory, tree orders, and accounts receivable. Tree orders are accepted at either location, but because the Badoura computer system is limited to 'view access' only, an employee at the General Andrews nursery enters orders and receipts into the computer system for both locations. Nursery employees collect receipts and deposit them into a state bank depository in Willow River.

The department's Office of Management and Budget Services in St. Paul is responsible for entering the tree nursery receipts into the state's accounting system. Several times a week, an accounting clerk at the General Andrews Nursery faxes deposit information to DNR's central office in St. Paul. There an account clerk enters the receipt information into the state's accounting system and generates receipt reports that are sent to the nursery staff for review.

The DNR Region 2 office in Grand Rapids processes purchase orders on behalf of the nurseries for amounts over $5,000, while accounting staff in St. Paul process purchase orders for amounts under $5,000 and for vendors that are under state contract. The nurseries receive their own deliveries and the related invoices. The nurseries approve the invoices and send them to the Forestry Division accounting department in St. Paul for payment.

The department accounts for all tree nursery costs, except for certain central office Forestry Division salaries, in the tree nursery fund. The fund is entirely supported by revenue from the sale of tree seedlings and other products. Table 4-1 highlights the tree nursery revenue and expenditure activity for fiscal years 2000, 2001, and 2002.

Table 4-1
Tree Nursery Program
Sources and Uses of Funds by Fiscal Year

	2000	2001	2002
Sources:			
Receipts	$1,486,316	$2,482,320	$2,252,099
Balance Forward In (Out) - Net	403,638	(499,787)	616,048
Total Sources	$1,889,954	$1,982,533	$2,868,147
Uses:			
Payroll and Per Diems	$1,334,743	$1,390,499	$1,461,053
Supplies and Equipment	436,817	431,484	485,727
Rent	30,308	40,673	37,688
Printing/Communications	37,717	32,145	39,977
Professional Technical Services	12,623	15,002	8,104
Statewide Indirect Costs	20,013	28,187	21,022
Other	17,733	44,543	45,478
Total Uses	$1,889,954	$1,982,533	$2,099,049

Note: Fiscal year 2002 expenditures include outstanding encumbrances. As of June 30, 2002, the department had not yet closed out the fiscal year 2002 tree nursery account. As a result, the account had an unliquidated account balance as of that date.

Source: Minnesota Laws and Minnesota Accounting and Procurement System (MAPS).

Audit Objectives and Methodology

Our audit of tree nursery transactions focused on the following objectives:

- Did the department design internal controls to provide reasonable assurance that tree nursery receipts were collected, adequately safeguarded, and properly recorded in the accounting records?
- Did the department properly record all expenditures related to the tree nursery program, and were all expenditures related to the program funded by tree nursery revenues?
- Did the department comply with applicable legal and policy provisions?

To answer these questions, we obtained an understanding of the internal control structure over the tree nursery receipt and disbursement processes. We reviewed controls and tested transactions to determine whether the Department of Natural Resources recorded receipts and accounted for all tree nursery costs in the accounting system. We also reviewed controls and examined transactions to determine if goods and services were obtained in accordance with state procurement policies and to determine the process used for determining tree prices.

Conclusions

We identified several weaknesses in the Department of Natural Resources' internal control over the tree nursery program, as well as certain instances of noncompliance with finance-related legal provisions, as discussed in Findings 8 through 12 below. In addition, as noted in Chapter 5, Finding 17, some employees who perform tree nursery accounting functions on the state's accounting system have incompatible system access.

8. The department did not have adequate controls over incoming tree nursery receipts.

Key duties relating to the collection and recording of tree nursery receipts are not adequately separated. One accounting clerk at the General Andrews Nursery is responsible for all receipt and depositing functions. The clerk enters tree orders and receipts into the tree nursery accounting system, adjusts accounts receivable, and prepares bank deposits. These responsibilities do not provide an adequate segregation of duties. An individual who performs all of these duties is in a position to conceal errors or irregularities in cash receipts by making adjustments to the related accounting records.

In addition, nursery receipts were not always promptly deposited. The tree nursery receives a large volume of payments in August and September of each year. During this period, it takes several days before the clerk opens all the mail and records payments in the accounting system. The accounting clerk, who controls when payments are opened and recorded, does not keep a log to track when payments are received. Minn. Stat. (2001) Section 16A.275 requires that state agencies daily deposit receipts totaling $250 or more in the state treasury. By not making timely deposits, receipts are at risk of being lost or stolen.

Recommendations

- *The tree nurseries should separate key nursery receipt functions or implement mitigating controls if duties cannot be adequately separated.*
- *The nursery should timely deposit receipts in accordance with the applicable statute.*

9. The department did not have adequate documentation for its specially designed tree nursery computer system.

The tree nursery staff does not have formal, written documentation to show how the tree nursery computer system operates. The system was designed to allow the tree nurseries to enter and track inventory, accounts receivable, and tree orders.

A consulting firm under state contract designed the computer system specifically for the tree nurseries, but did not provide an operation manual or other system documentation as a part of its work. Whenever system problems occur, the nursery staff must rely on the availability of the consulting firm to assist them. In some cases, the nursery staff has relied on manual adjustments and corrections, rather than having the system reprogrammed. For example, the tree nursery computer system has not been accurately processing adjustments to orders. When reports are generated, the staff manually corrects the errors on paper reports. Not having accurate information in the computer system could result in errors in future management reports.

Recommendation

- *The tree nurseries should take steps to adequately document its existing computer system.*

10. The department did not have sufficient documentation to support its tree prices.

The department has not documented the calculations used for determining tree prices. Employees were unable to provide us with specific documentation supporting its tree price calculations. The department intends to set tree nursery prices so that revenues are sufficient to cover expenditures. We were told that each spring the marketing committee, which is made up of tree nursery and other DNR employees, meets to determine any price changes. The committee reviews the revenue forecast and expenditure budget for the upcoming year to make sure revenues exceed anticipated costs. If expenditures are projected to exceed revenues, the committee authorizes a price adjustment. The marketing committee decides which trees should have a price increase and by what amount. Without detailed documentation, it is difficult to determine which costs the marketing committee considered in determining its prices. It also may be difficult for the committee to determine which prices should be revised if a shortfall should occur.

Recommendation

- *The Tree Nursery Program should document the detailed calculations it uses for determining tree prices.*

11. The tree nursery had several weaknesses in its purchasing process.

Certain tree nursery purchases did not comply with the state's procurement policies. In addition, the department did not adequately separate key disbursement duties.

Out of 20 tree nursery disbursement transactions tested, five violated some portion of the state's procurement policy, including the following:

Department of Natural Resources

- For three transactions, the department did not encumber the purchase prior to the date the obligation was incurred. The purchases ranged from $2,900 to $41,000. Minn. Stat. Section 16A.15 (2001) requires that either funds be encumbered or agencies verify sufficient funds are available prior to incurring obligations. Department of Finance policy 0702-02 requires state agencies to encumber funds for obligations exceeding $2,500. Not executing contracts or encumbering funds before incurring obligations could cause budgeting problems or contract performance concerns.

- The department coded a professional/technical service contract as a grant. The nursery program issued a $15,000 grant for professional and technical services to provide "research, direction, guidance, and technical advice related to tree improvement, plantation establishment, and plantation maintenance while serving as a conduit for information and ideas between academic, industrial, and governmental sources." By setting up the project as a grant, the tree nurseries circumvented the state's professional/ technical contract compliance requirements and required approval processes.

- The department made a food purchase of $118 without completing the required special expense form. The Department of Finance has established guidelines relating to special expenses incurred in connection with assigned official duties of a state employee, which are not reimbursable through the regular expense process. According to the policy, the department must prepare a special expense form, signed by the department head or designee, in advance of the disbursement. By not completing a special expense form, the disbursement violated the Department of Finance guidelines.

In addition, one clerk within the Forestry Division is responsible for both purchasing and disbursement functions. The clerk is responsible for processing purchase orders and entering disbursements for the tree nurseries. These responsibilities do not provide an adequate segregation of duties. An individual who performs these duties could make purchases and disbursements for unauthorized purposes. The department needs to review its resources and either separate duties within the receipt and disbursement functions or implement mitigating controls to prevent irregularities and material errors from occurring.

Recommendations

- *The department should follow required procurement policies when making tree nursery purchases.*

- *The department should separate key duties within the purchasing functions whenever possible. It should implement mitigating controls whenever it is not feasible to adequately separate key duties.*

12. PRIOR FINDING PARTIALLY RESOLVED: The tree nursery program recorded transactions on the state's accounting system using incorrect record dates.

The department did not use the proper record date when entering disbursements in the state's accounting system (MAPS). Out of 20 tree nursery disbursements tested, eight had incorrect record dates. Three of the eight errors were due to encumbrances entered after the date the obligation was incurred. The state's accounting system will not allow entry of a record date that is before the encumbrance date. The department should use the date it incurred the obligation as the record date. Improper entry of the record date could cause material misstatements in the state's financial statements and hinder comparability between accounting periods.

Recommendation

- *The department should use the correct record date when entering disbursements into the Minnesota Accounting and Procurement System (MAPS).*

Chapter 5. Fleet Management Program

Chapter Conclusions

The Department of Natural Resources complied with applicable finance-related legal provisions relating to the management of its vehicle fleet. However, we identified several weaknesses in the department's internal controls over its fleet, including the following:

- ***The department has not verified the accuracy of the fleet rates being charged.***
- ***The department does not periodically review pricing factors to ensure that it is properly charging vehicle users.***
- ***The department does not have comprehensive written policies relating to vehicle acquisition and usage.***
- ***The department does not review and verify the appropriateness of fuel credit card charges.***
- ***The department did not adequately limit and monitor access to the states accounting system.***

The Department of Natural Resources operates a vehicle fleet management program. The program has been in operation since 1987. Currently, the program has over 2,500 vehicles. Fleet management provides a variety of vehicles, including trucks, passenger cars, tractors, loaders, crawlers, ATV's, snowmobiles, trailers, and other types of equipment. DNR divisions are not required to purchase vehicles through fleet management and sometimes obtain vehicles and equipment from outside sources.

In order to participate in the fleet management program, divisions first determine the type and number of vehicles they need to support their operations. They submit equipment requests to fleet management, which prepares detailed specifications for the vehicle. In most cases, these orders replace existing vehicles that are nearing the end of their useful lives. Fleet management finances vehicle and equipment purchases through loans from the state's master lease program or through available cash.

The fleet management program allows customers great flexibility in vehicle usage terms. For example, for a pickup truck, a division can choose a time frame of from 3 to 12 years and from 60,000 to 125,000 miles of expected use during the truck's life. Customers are encouraged to select a life cycle that will most closely correspond to their expected actual vehicle use. Fleet management recovers vehicle acquisition and usage costs through fixed and variable charges to vehicle users. Each vehicle has an individually calculated rate structure that is intended to recover the costs of operation of the particular vehicle during its anticipated life cycle.

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The Department of Natural Resources instituted the fleet management program in order to consolidate and minimize the costs associated with operating its fleet of vehicles. Fleet management has not had authority to require participation in the program, and there is no process to ensure that divisions who acquire or lease their own equipment receive favorable pricing when compared to the rates charged by fleet management. This activity outside of the fleet program has cost implications on fleet expenditures. In addition, fleet management provides maintenance only agreements for equipment that was purchased outside of the fleet program. For older equipment, these charges often do not cover the increased maintenance costs. In addition, fleet management's great flexibility in vehicle life cycles creates a complicated rate structure in which there can be a myriad of rates on similar vehicles.

Fleet management uses a custom-designed fleet management software package called CODA to calculate and track its billing rates. When a DNR division acquires a new vehicle from fleet management, the acquisition costs, vehicle type, and life cycle variables for the vehicle are entered into the CODA system. The system uses factors, such as vehicle depreciation charges, and estimated fuel, maintenance, insurance, and overhead costs to calculate fixed and variable charges for vehicle use. Charges include all direct costs of vehicle use. The cost of salaries paid to fleet management staff are not recovered through charges to vehicle users, but are paid out of the state's General Fund. The CODA system produces monthly invoices for the use of all vehicles. Most users pay a monthly fixed rate for vehicle use, plus a variable charge for miles driven.

Other than payroll costs for fleet management program personnel, nearly all other fleet management costs have been accounted for in the Fleet and Equipment Management Fund. The department estimates that in fiscal year 2002, approximately $1.6 million in General Fund appropriations was used to pay fleet and equipment management salaries. Table 5-1 highlights the Fleet and Equipment Management Fund's revenue and expenditure activity for fiscal years 2000, 2001, and 2002.

Table 5–1
Fleet Management
Sources and Uses of Funds by Fiscal Year

	2000	2001	2002
Sources:			
Receipts	$13,620,514	$17,501,812	$16,182,361
Balance Forward In (Out) - Net	296,601	(1,277,528)	1,596,430
Total Sources	$13,917,115	$16,224,284	$17,778,791
Uses:			
Supplies and Equipment	$8,445,683	$10,730,662	$10,043,931
Debt Service	3,736,165	3,483,389	3,794,585
Repairs and Maintenance	601,966	941,478	891,361
Professional Technical Services	234,537	198,536	141,326
Statewide Indirect Costs	106,314	27,750	28,759
Other	792,450	842,469	1,276,102
Total Uses	$13,917,115	$16,224,284	$16,176,064

Note: Fiscal year 2002 expenditures include outstanding encumbrances. As of June 30, 2002, the department had not yet closed out the fiscal year 2002 fleet management account. As a result, the account had an unliquidated account balance as of that date.

Source: Minnesota Accounting and Procurement System (MAPS).

Audit Objectives and Methodology

We focused our review of fleet management receipts and expenditures on the following objectives:

- Did the department's internal controls provide reasonable assurance that fleet management receipts were collected, adequately safeguarded, and properly reported in the accounting records?
- Did the department have a reasonable method of fairly and accurately recovering costs related to its fleet management program?
- Did the department properly record fleet management expenditures in the accounting records?
- Did the department comply with applicable legal and policy provisions related to fleet management?

To address these objectives, we interviewed fleet management staff to gain an understanding of the process for calculating vehicle rates, invoicing customers, collecting receipts, maintaining vehicles, and regulating their use. In addition, we selected a sample of receipt transactions and verified whether staff properly collected, adequately safeguarded, and properly reported the appropriate vehicle use fees. We also selected a sample of disbursement transactions to ensure that they were properly reported in the accounting records. We reviewed revenues and expenditures to determine if the department complied with applicable finance-related legal provisions. We did not verify the existence of the vehicle fleet inventory.

Conclusions

The department complied with applicable finance-related legal provisions relating to the management of its vehicle fleet. However, as discussed in Findings 13 through 17 below, we identified several weaknesses in the department's internal controls over its fleet. We found that the department does not periodically review every pricing factor used in the rate formulas and, therefore, has not been able to fully document and verify the accuracy of the fleet rates to ensure that it is properly charging vehicle users. In addition, the department does not have comprehensive written policies and agreements relating to vehicle acquisition and usage. The department also does not review and verify the appropriateness of fuel credit card charges. Finally, the department has not sufficiently limited and monitored access to the state's accounting system, and as discussed in Chapter 4, Finding 12, some disbursements to fleet management were coded with incorrect record dates.

13. The department has not verified the accuracy of the fleet rates being charged.

Fleet management personnel do not have a full understanding of the calculations the fleet management accounting system uses to determine fleet vehicle rates. The system uses detailed formulas and tables to calculate monthly billings for vehicle use. The department also does not have adequate controls in place to ensure that original vehicle data and rate adjustments are done properly.

The fleet management accounting system (CODA) performs a complex set of calculations to determine the rates that will be applied to each vehicle based on the cost of the vehicle and the life cycle selected by the customer. When a vehicle is set up on the system, fleet management employees enter various cost and life cycle factors that are specific to the individual vehicle and the vehicle class into CODA. The system then calculates fixed and variable rates for each vehicle, which are the basis for the monthly invoices to the vehicle user.

After extensive interviews with current fleet managers, we were not able to determine the exact formulas used to determine vehicle rates. Fleet personnel do not perform any recalculations or review of the rate formulas to ensure that they are correctly calculated by CODA. We were unable to test the accuracy of the rate calculations because we could not determine the exact formulas used in the calculation. Since fleet management is unable to recalculate the rates manually, the department has no assurance that the calculations performed by the accounting system are accurate. Without a thorough understanding of the rate calculations, the department cannot review the calculations to ensure that they are still appropriate under current conditions.

We also found that, in some cases, employees made errors when entering original vehicle data or rate adjustment data into CODA. In reviewing the vehicle rate listing, certain vehicles appeared to be charged at incorrect rates. Although fleet management runs exception reports on the fleet management computer system to detect such errors, it is unclear whether this process is effective.

Recommendations

- *The department should work with CODA developers to gain a thorough understanding of the rate calculations used by the system. It should formally document the rate calculations.*

- *The department should periodically review the rate calculations to ensure that they are still appropriate under the current fleet structure and conditions.*

- *The department should manually recalculate some vehicle rates on a sample basis to ensure that they are properly calculated by the accounting system.*

- *The department should centralize data entry for new vehicles and rate adjustments and review them for accuracy before billings go out for these vehicles.*

14. The department does not periodically review fleet pricing factors to ensure that it is properly charging fleet costs to vehicle users.

The department does not have a process in place to regularly analyze and recalculate cost factors that impact vehicle rates. The fleet management accounting system (CODA) uses tables containing various cost factors that have a direct impact on the operating costs of fleet vehicles. These cost factors include fuel costs, maintenance, insurance, replacement values, salvage values, fuel use, and other factors. The only cost factor that the department regularly adjusts is fuel. Without an adequate process to periodically analyze all costs and recalculate cost factors that are used to calculate rates, the department cannot ensure that it recovers all costs associated with owning and operating fleet vehicles.

Recommendations

- *The department should ensure that, on a regular basis, it identifies and analyzes all costs related to the fleet program.*
- *The department should regularly recalculate and enter updated cost factors into the fleet accounting system.*

15. The department does not have comprehensive written policies relating to fleet vehicle acquisition and usage.

The department has not developed a comprehensive policy manual for fleet vehicle users. Fleet management relies primarily on state laws and policies to guide vehicle use. As a result, vehicle users do not have clear written guidelines that they must follow regarding proper use, maintenance, and care of fleet vehicles. For example, fleet management has a verbal policy requiring that users obtain approval from fleet management before incurring repair costs of $300 or more. This policy is often ignored. As a result, fleet management may incur obligations for unnecessary or overpriced repairs. Without detailed written vehicle policies in place, fleet management cannot ensure that users whose vehicle use habits cause additional costs to be incurred are appropriately charged for those costs.

In addition, the department does not require vehicle users to sign written contracts with fleet management. These contracts could be used to detail monthly charges and other terms and conditions relating to the use of the vehicles. Without a written agreement between fleet management and the vehicle user, disagreements may arise regarding the specific rights and responsibilities of the two parties.

Recommendations

- *The department should develop comprehensive written policies to govern the acquisition and use of fleet vehicles.*

- *The department should require vehicle users to sign a written agreement to document the terms and conditions of use for each vehicle.*

16. The department does not have sufficient controls in place to review and verify the appropriateness of charges to fuel credit cards.

Fleet management does not have an adequate process in place to verify the appropriateness of charges made on vehicle fuel credit cards. Fleet management issues a credit card for each vehicle. Drivers can use the card for fuel and small maintenance items. Each month, fleet management receives an invoice from the fuel credit card company that details all individual purchases made during the preceding month. The invoices include codes, showing the type of purchases that were made. In several cases, fleet management staff has identified fuel credit card charges that do not appear to be fuel or vehicle maintenance related. While the department has begun efforts to review these invoices, they do not have a systematic process in place to pursue questionable charges and to ensure that the charges on the invoices are appropriate. Without a detailed and systematic process for review and analysis of this data, the department faces increased risks that inappropriate costs will be paid by the department.

Recommendations

- *The department should develop a systematic process to review monthly fuel invoices to ensure that charges are made only for appropriate purposes.*

- *The department should develop a process for pursuing questionable fuel credit card charges.*

17. The department did not adequately limit and monitor access to the state's accounting system.

We found that a large number of department employees had incompatible access to the state's accounting system (MAPS). This incompatible access affects the fleet management and tree nursery areas, as well as the license center. In our review of employees' access rights to MAPS, we found that out of 140 employees with access to MAPS, 126 had access to incompatible security groups. Such access would allow an employee to initiate a purchase of goods or services and then issue payment for those items without review by an independent person.

Recommendation

- *The department should develop procedures to monitor system access and investigate excessive, as well as incompatible, clearances that currently exist. System access privileges should be based on job responsibilities*

Status of Prior Audit Issues
As of August 16, 2002

Statewide Audits

Legislative Audit Report 02- 07, issued January 31, 2002, and Legislative Audit Report 01-14, issued March 15, 2001, covered Department of Natural Resources' activities and programs that were material to the State of Minnesota's general purpose financial statements for the fiscal years ended June 30, 2001 and 2000, respectively. Each report contained one issue related to the department's coding of certain expenditure transactions in the state's accounting system. We cite additional examples of incorrect record date coding in Finding 12 of the current report.

Department Audit

Legislative Audit Report 97-42, issued August 15, 1997, was a selected scope audit of the Department of Natural Resources for the period from July 1, 1995, through March 31, 1997. It included departmental revenues and payroll. There were no findings in that 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.

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

October 9, 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 period from July 1, 1999 through June 30, 2002.

Audit Finding 1: The central office did not always independently verify payroll transactions entered into the payroll system.

Audit Recommendation: The Department of Natural Resources should improve payroll controls by consistently performing an independent review of the SEMA 4 payroll register and payroll posting audit trail to ensure proper input of timesheet hours, pay rates, and special transactions.

The DNR concurs with your recommendation. Patricia Burt, Assistant Administrator & Labor Relations Director, Human Resources Bureau (HRB), and her staff will conduct a review of all delegated payroll authorities to ensure that appropriate payroll policies and procedures, including an independent review of the payroll register and payroll posting audit trail, are followed. In addition, refresher training on appropriate procedures related to the review will be conducted by HRB no later than December 31, 2002.

Audit Finding 2: The department issued refunds without statutory authority and did not have adequate controls in place to ensure that all refunds issued were appropriate.

Audit Recommendation: The department should obtain statutory authority before issuing refunds. If the department receives legal authority to grant refunds, it should design and implement internal controls to ensure that refunds granted to customers are appropriate.

Although we realize the need for statutory authority (and would prefer it in this manner) we also have an obligation to our customers and the state's natural resources to provide a limited refund capability due to unforeseen circumstances. Current procedures or policies have been developed based on directives from Departmental leadership to address circumstances such as a customer death or disability prior to the season opening, technical or license system problems and national emergencies. As an example, the DNR issued a limited number of refunds to customers who had purchased deer licenses prior to the season and then were called up for military service as a result of September 11, 2001.

The DNR will attempt to pursue authorization as part of the legislative agenda probably during the 2004 session (the deadline has now passed for 2003 session). In the interim, the Department will review current internal controls on refunds, ensure adequate controls are in place and implement additional controls that are warranted by December 31, 2002. Tom Keefe and Suellen Rau of the Information Education and Licensing Bureau (IELB) will be responsible for implementing fully our solution by the end of the FY04 legislative session.

Audit Finding 3: The department did not adequately safeguard nor promptly deposit certain license receipts.

Audit Recommendation: The department should adequately safeguard receipts by restrictively endorsing all checks immediately, and keeping all checks physically secure until deposited.

The License Center will attempt to keep mail with checks enclosed locked in file storage until they are actually processed. The option to pre-endorse the checks first is just not feasible with the current and projected levels of staffing in the unit.
An update to the exemption from the daily deposit has been sent to the Department of Finance. Suellen Rau of the IELB will be responsible for implementing this solution.

Audit Finding 4: The department did not verify the overall reasonableness and accuracy of its license receipts.

Audit Recommendation: The department should perform periodic reconciliations to ensure that the number of hunting and fishing licenses, registrations, and titles issued by agents and the receipts recorded in the Electronic Licensing System match the revenue recorded in the state's accounting system.

The DNR Office of Management and Budget Services (OMBS) did test for reasonableness in FY 2000; the first year the ELS system was in place. A spreadsheet was created in LOTUS, using the ELS administrative report MNHG065 – "License Totals by ACH Date," for total licenses sold multiplied by the breakout for each license type. This gave the total for each accounting string in MAPS. Due to the fact that the duplicate license dollars are coded to the same accounting string as licenses sold, this was a very labor - intensive task. This was compared to the totals in MAPS. (The information in MAPS was pulled via the IA warehouse runtime report.) The spreadsheet did indicate the accounting reports from the ELS system were accurate.
DNR did not do this test for FY01, and is currently working with Central Bank, the ELS vendor and DNR MIS on developing reports to calculate the information from the Central Bank system. Linda Schneider of the IELB will be responsible for ensuring that suitable reports are developed and used to test the relationship between licenses, registrations, and titles issued and revenues deposited in the state's accounting system by June 30, 2003.

Audit Finding 5: The department did not suspend license agents who failed to maintain an adequate bank balance to cover their license sales.

Audit Recommendation: The department should consistently enforce the provisions of its agent contracts concerning adequate funds on deposit in agent bank accounts.

The Department recognizes the problem and agrees with the recommendation. The implementation of the Electronic Licensing System (ELS) in 2000 placed a new responsibility on the DNR for agent management and revenue collection. The License Center is in the process of developing firm guidelines and policies on this matter that will address the needs of agents, customers and the Department. Tom Keefe of the IELB will be responsible for developing the policies to enforce the provisions of our agent agreements by December 31, 2002.

Audit Finding 6: The department did not adequately limit and monitor access privileges to its Electronic Licensing System.

Audit Recommendation: The department should adequately document access provided by each group, develop security standards for job descriptions, document potentially incompatible security groups, and identify effective methods to mitigate risks when they cannot separate duties.

The department should develop procedures to monitor system access and investigate excessive, as well as incompatible, clearances that currently exists. System access privileges should be based on job responsibilities.

ELS Tier 1 has been in effect since March of 2000 and Tier 2 for a little over a year. System access was an ongoing development issue when the system was first established under both Tiers and continues to be so. The Department has recognized this and has been seeking changes in the ELS to address the security concerns listed. As an example, no request for access is issued without a completed security access form issued by the project manager for either Tier 1 or Tier 2. The vendor will not add a user or change access without this accompanying form.
The Department had discussed system changes (reports, changes in security levels etc) with the ELS Vendor, but due to limited funding, staff and time, it has not been able to implement any of these changes to date. The Department will continue the review of security needs, and implement needed changes as funding and time become available. Suellen Rau and Tom Keefe of the IELB will be responsible for pursuing the Department's solution to this issue.

Audit Finding 7: The department did not verify that the allocations of License Center payroll were appropriate.

Audit Recommendation: The department should develop formal policies for allocating License Center costs to the various funds for which License Center revenue is collected.

The department should ensure that costs are pro-rated to the various funds to ensure that each fund is charged a consistent and equitable share of the costs.

Although DNR OMBS had done this on a periodic basis prior to the merger of the two bureaus, it had not been done in the last several years. A recent spot check of the FY 2002 time summaries & actual salary expenditures for licensing showed a very good correlation between watercraft time and salary/fringe expenditures (43.0% vs. 44.1%) and a fairly close relationship for the game and fish time and salary/fringe expenditures (42.1% vs. 39.3%). Off highway motorcycle (OHM) and off-road vehicle (ORV) were also close (although insignificant in size compared to the other activities). Snowmobile and ATV varied to a greater extent, but this may have been a result of a winter where there was little snow for snowmobile use and a growing population of ATV's.
It would be our recommendation that this be looked at over a two-year cycle, to remove any weather-related factors and to gain another year of ELS system experience, since ELS for boats and other recreational vehicles was in place only from October through June. Kim Elverum of the IELB will be responsible for monitoring and reporting on the biennial correlation between time summaries as cost coded and the salaries that were actually paid from the various licensing funds and appropriations.

Audit Finding 8: The department did not have adequate controls over incoming tree nursery receipts.

Audit Recommendation: The tree nurseries should separate key nursery receipt functions or implement mitigating controls if duties cannot be adequately separated.

The nursery should timely deposit receipts in accordance with the applicable statute.

The Department concurs with these recommendations. The Forestry division will develop and implement procedures that either separate key receipt functions or institute mitigating controls at the nurseries. Receipts will be deposited in accordance with the applicable statute or if necessary at peak times a waiver will be obtained from Finance for that period. Doug Anderson, Nursery Supervisor and John Bouthilet, Forestry Division Business Manager will be responsible for initiating these changes by December 1, 2002.

Audit Finding 9: The department did not have adequate documentation for its specially designed tree nursery computer system.

Audit Recommendation: The tree nurseries should take steps to adequately document its existing computer system.

The Department concurs with this recommendation. The Forestry division will require delivery of the software documentation and manuals to support the system. Doug Anderson, Nursery Supervisor will be responsible for accomplishing this by June 30, 2003.

Audit Finding 10: The department did not have sufficient documentation to support its tree prices.

Audit Recommendation: The Tree Nursery Program should document the detailed calculations it uses for determining tree prices.

The Department concurs with this recommendation. The division of Forestry (nursery marketing committee) will develop and adopt detailed cost documentation to support the tree price structure. Doug Anderson, Nursery supervisor will be responsible for getting the appropriate documentation from the committee by August 31, 2003.

Audit Finding 11: The tree nursery had several weaknesses in its purchasing process.

Audit Recommendation: The department should follow required procurement policies when making tree nursery purchases.

The department should separate key duties within the purchasing functions whenever possible. It should implement mitigating controls whenever it is not feasible to adequately separate key duties.

The division of Forestry will require the nursery to follow required Department of Administration and DNR procurement policies when making purchases. The division will develop and implement procedures that either provide for separation of incompatible duties, or provide mitigating controls. Doug Anderson, Nursery Supervisor and John Bouthilet Forestry Division Business Manager will be responsible for instituting these changes by December 1, 2002.

Audit Finding 12: PRIOR FINDING NOT RESOLVED: The department recorded transactions on the state's accounting system using incorrect record dates.

Audit Recommendation: The department should use the correct record date when entering disbursements into the Minnesota Accounting and Procurement System (MAPS).

The Department has conducted training January- March of 2002 for all input personnel. The Department has distributed a job aid to all input locations that clearly describes the dates that should be entered in each of the different date fields in each of the different components of the MAPS system. The Department has increased its efforts to reduce the instances of MS16A.15 subd 3 violations. None of the transactions with incorrect recorded dates happened after the training was conducted, with the exception of those identified by the Department as MS16A.15 subd 3 violations. The Department will continue to sample and monitor dates of record entered into MAPS. Jerry Hampel, Business Services Manager will be responsible for this over the next 2 years.

Audit Finding 13: The department has not verified the accuracy of the fleet rates being charged.

Audit Recommendation: The department should work with CODA developers to gain a thorough understanding of the rate calculations used by the system. It should formally document the rate calculations.

The department should periodically review the rate calculations to ensure that they are still appropriate under the current fleet structure and conditions.

The department should manually recalculate some vehicle rates on a sample basis to ensure that they are properly calculated by the accounting system.

The department should centralize data entry for new vehicles and rate adjustments and review them for accuracy before billings go out for these vehicles.

The department agrees that there is a portion of the rate calculation in our database relating to depreciation, salvage values, and expected replacement costs that is not fully documented. While staff has verified the accuracy of the result with actual salvage values from sales (see below comparison), without full documentation of the formula, it is difficult to verify and defend the validity of the equation. The department is committed to document the formulas and/or to change them such that they can be documented. The department is committed to remedy this problem by the end of this fiscal year. Elaine Johnson, Facilities and Operations Support (FOS) administrator will be responsible.

DNR Fleet Salvage Values

August 2002

Year	Model	Unit	Description	Mileage	Projected Salvage Using Current Formula	Projected Salvage Using Risk Management Formula	**Actual** Salvage from 07/13/02 Auction
1968	Intl/1600	2651	Truck	31,981	$1,170.00	$733.20	$2,200.00
1994	GMC/K1500	630864	Pick Up	116,571	$5,963.00	$3,330.05	$3,900.00
1995	Ford/F150	631062	Pick Up	115,601	$5,565.00	$4,625.86	$4,900.00
1988	Chev/C3500	650008	Pick Up	113,564	$2,258.00	$1,669.35	$2,500.00
1989	Ford/F700	680310	Dump	66,461	$2,464.00	$3,290.33	$4,900.00
1993	Chev/K1500	782131	Pick Up	99,173	$3,071.00	$1,900.39	$3,200.00
1994	GMC/K1500	817682	Pick Up	102,486	$2,049.00	$3,345.05	$6,100.00
1994	Chev/1500	817696	Pick Up	94,433	$3,626.00	$3,096.60	$3,100.00
1994	Chev/1500	817697	Pick Up	101,783	$3,626.00	$3,096.60	$4,000.00
1995	Chev/Astro	843690	Van	71,032	$4,193.00	$4,261.15	$4,000.00
1995	Chev/Astro	843695	Van	75,851	$4,193.00	$4,261.15	$4,100.00
1995	Ford/F150	843717	Pick Up	82,500	$3,097.00	$3,148.20	$3,600.00
1995	Ford/F150	855204	Pick Up	105,255	$6,959.00	$4,625.86	$3,600.00
1995	Ford/F150	855205	Pick Up	84,745	$2,381.00	$4,625.86	$4,400.00
1996	Ford/Aerostar	910598	Van	92,952	$5,367.00	$5,822.16	$3,300.00
				Totals	**$55,982.00**	$51,831.81	**$57,800.00**

The department agrees that centralizing data entry for new vehicles and rate adjustments would lead to improved accuracy, and will take steps to implement this recommendation by July 1, 2003, Elaine Johnson will be responsible.

Audit Finding 14: The department does not periodically review fleet pricing factors to ensure that it is properly charging fleet costs to vehicle users.

Audit Recommendation: The department should ensure that, on a regular basis, it identifies and analyzes all costs related to the fleet program.

The department should regularly recalculate and enter updated cost factors into the fleet accounting system.

The DNR concurs with your recommendations. The department has been in the process of reviewing its business practices, and has recently completed a "business plan". This plan will be utilized this fiscal year in the review and setting of rates to achieve goals and objectives as established by the department's fleet management committee. Elaine Johnson, Facilities and Operations Support (FOS) Bureau Administrator will be responsible for implementing these procedures by July 1, 2003.

Audit Finding 15: The department does not have comprehensive written policies relating to fleet vehicle acquisition and usage.

Audit Recommendation: The department should develop comprehensive written policies to govern the acquisition and use of fleet vehicles.

The department should require vehicle users to sign a written agreement to document the terms and conditions of use for each vehicle.

The department has begun the process of developing the "DNR Fleet Manual" that will resolve this problem. The first policies:

1. Establishing a Fleet Committee and manual
2. Establishing accident reporting and inspection requirements
3. Establishing a "Use of State Equipment" policy

are complete, or will be by the end of the month. A draft of the table of contents has been completed. The "Use of State Equipment" policy is attached. This policy also addresses the recommendation to have users sign a written agreement. Elaine Johnson, FOS Bureau Administrator will be responsible for ensuring that appropriate Fleet policies are developed and included in the manual by July 1, 2003.

Audit Finding 16: The department does not have sufficient controls in place to review and verify the appropriateness of charges to fuel credit cards.

The department should develop a systematic process to review monthly fuel invoices to ensure that charges are made only for appropriate purposes.

The department should develop a process for pursuing questionable fuel credit card charges.

The department agrees that there are existing weaknesses in the review of fuel charges, and is in the process of developing and implementing a systematic process to ensure that charges are accurate and are for appropriate purposes. Questionable purchases will be pursued. Elaine Johnson, FOS Bureau Administrator will be responsible for developing the process for review and follow-up on questionable fuel charges by December 1, 2002.

Audit Finding 17: The department did not adequately limit and monitor access to the state's accounting system.

The department should develop procedures to monitor system access and investigate excessive, as well as incompatible, clearances that currently exist. System access privileges should be based on job responsibilities.

The DNR will review all MAPS clearances, and restrict clearances to those needed to accomplish job responsibilities. The Department will review the need for compensating controls where incompatible clearances are needed for effective business operations. Jerry Hampel, Business Services Manager, will be responsible for reviewing and revising MAPS clearances where necessary or prudent and for developing compensating controls as needed by July 1, 2003.

Again, thank you for the opportunity to respond to your audit finding and recommendation. We appreciate the professional and helpful manner of the staff from your office.

Sincerely,

/s/ Allen Garber

Allen Garber
Commissioner, Department of Natural Resources