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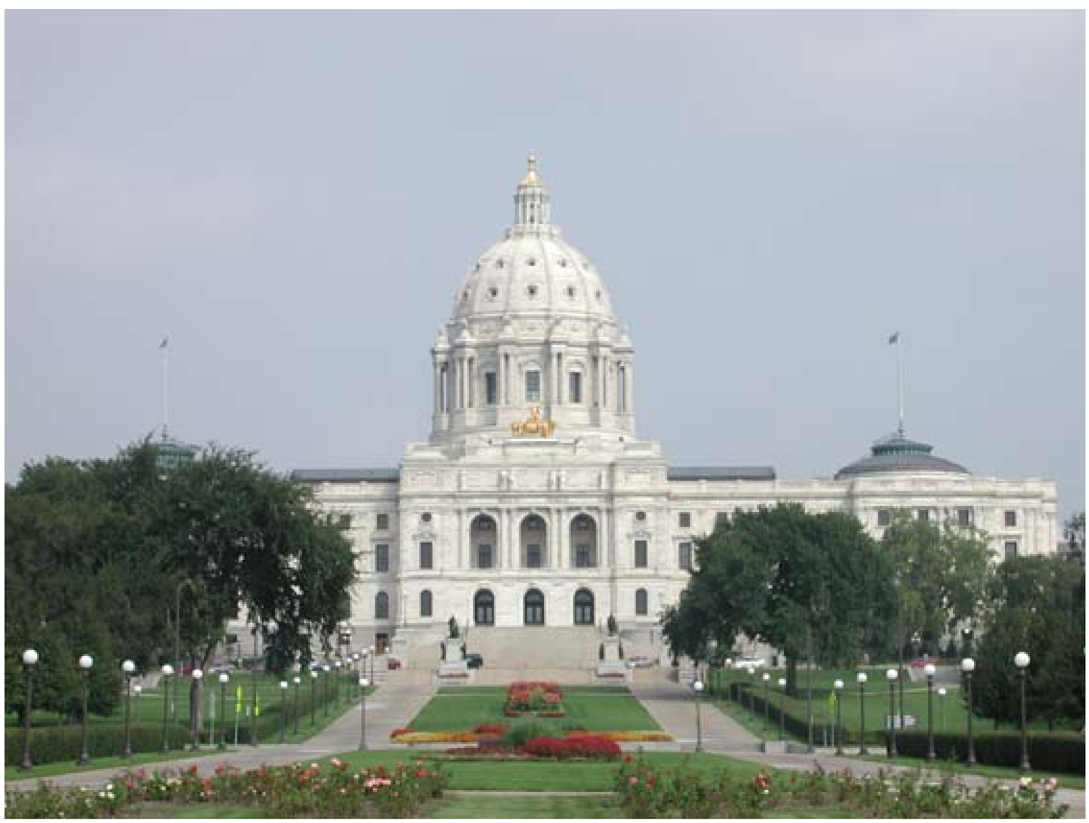
# OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

# Department of Natural Resources
## July 1, 2002, through June 30, 2007



**December 21, 2007** **07-36**

## 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 forty 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.

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

Through its Program Evaluation Division, OLA conducts several evaluations each year.

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**OFFICE OF THE LEGISLATIVE AUDITOR**

**State of Minnesota • James Nobles, Legislative Auditor**

**Financial Audit Division Report**

# Department of Natural Resources

## July 1, 2002, through June 30, 2007

**December 21, 2007** **07-36**

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

Representative Rick Hansen, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Mark Holsten, Commissioner
Minnesota Department of Natural Resources

We have audited selected areas of the Minnesota Department of Natural Resources for the period July 1, 2002, through June 30, 2007. Our audit scope included payroll expenditures, revenues, grants and security systems access controls. Our objectives focused on a review of the department's internal controls over these financial activities and its compliance with applicable legal provisions. The Report Summary highlights our overall audit conclusions. The specific audit objectives and conclusions for each area are contained in the individual chapters of this report.

We would like to thank the staff from the Minnesota Department of Natural Resources for their cooperation during this audit.

| | |
|---|---|
| */s/ James R. Nobles* | */s/ Cecile M. Ferkul* |
| James R. Nobles<br>Legislative Auditor | Cecile M. Ferkul, CPA, CISA<br>Deputy Legislative Auditor |

End of Fieldwork: July 31, 2007

Report Signed On: December 18, 2007

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## Audit Participation

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

| | |
|---|---|
| Cecile Ferkul, CPA, CISA | Deputy Legislative Auditor |
| Thomas Donahue, CPA | Audit Manager |
| Ken Vandermeer, CPA, CFE | Auditor-in-Charge |
| Carl Otto, CPA, CISA | Auditor |
| Pat Ryan | Auditor |
| David Westlund | Auditor |

## Exit Conference

We discussed the results of the audit with the following representatives of the Minnesota Department of Natural Resources at an exit conference on December 11, 2007:

| | |
|---|---|
| Mark Holsten | Commissioner |
| Bob Meier | Special Assistant to the Commissioner |
| Denise Anderson | Chief Financial Officer |
| Jerry Hampel | Fiscal and Admin. Services Manager |
| Diane Campbell | State Program Admin. Director |

# Report Summary


**Conclusion:**

The Minnesota Department of Natural Resources had adequate internal controls over payroll, personnel transactions, and governmental grants and subsidies. However, the department did not establish adequate controls over its revenues and computer systems.

The department generally complied, with material finance-related legal provisions. However, the department did not always deposit receipts promptly, as required by statute. This report contains six findings relating to internal control and legal compliance. Findings 2 and 6 contain issues from the prior audit that were not implemented.

**Key Findings:**

- The department did not promptly deposit receipts nor provide adequate safeguards to protect undeposited funds. (Finding 2, page 12)
- The department did not document the review and authorization of adjustments recorded on its integrated revenue accounting system. (Finding 3, page 13)
- The department did not establish adequate controls over revenue coding and fees charged. (Finding 4, page 14)
- The department did not adequately limit employee access to the integrated revenue accounting system or establish good password control policies. (Finding 5, page 18)
- The department did not adequately limit and monitor access to the state's accounting system or its electronic licensing system. (Finding 6, page 19)

**Audit Scope:**

Period Audited:
July 1, 2002, to June 30, 2007

Programs Audited:

- Personnel and Payroll Controls
- Revenue
- Governmental Grants and Subsidies
- Security Systems Access Controls

**Agency Background:**

The Minnesota Department of Natural Resources is a service and regulatory agency, responsible for protecting and managing the state's natural resources. The department oversees both outdoor recreation opportunities and commercial uses of natural resources. It has a broad range of activities and responsibilities, with over 3,400 employees located throughout the state. The department organized its operations into eight operating divisions and four support bureaus and maintains regional offices throughout the state.

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# Chapter 1. Introduction

The Minnesota Department of Natural Resources is a service and regulatory agency. The department 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 organized its operations into eight operating divisions and four 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 director who coordinates the department's efforts throughout the region. The department's activities are primarily funded by legislative appropriations, federal grants, and user fees that are deposited into dedicated accounts appropriated to the agency. The department's financial activity is subsequently recorded on the state's accounting and procurement system once posted to department subsystems. Governor Tim Pawlenty appointed Mark Holsten, the current commissioner, on December 19, 2006. Gene Merriam was the commissioner from January 27, 2003, to December 7, 2006.

Table 1-1 summarizes the department's financial activity for fiscal years 2005 to 2007.

**Table 1-1**
**Financial Sources and Uses**
**Fiscal Years 2005, 2006, and 2007**

| | 2005 | 2006 | 2007 |
|---|---|---|---|
| Appropriations[1] | $338,777,887 | $372,814,076 | $287,952,397 |
| Dedicated Receipts[2] | 103,825,950 | 120,141,153 | 122,111,668 |
| Transfers In[3] | 20,876,579 | 20,660,380 | 20,309,852 |
| Balance Forward In | 91,632,381 | 72,322,407 | 91,465,768 |
| Total Sources | $555,112,797 | $585,938,016 | $521,839,685 |
| | | | |
| Payroll | $163,322,842 | $168,383,051 | 176,460,722 |
| Grants | 65,458,787 | 40,202,929 | 19,156,415 |
| Other Expenditures | 150,192,963 | 130,399,960 | 145,552,235 |
| Total Expenditures | $378,974,592 | $338,985,940 | $341,169,372 |
| | | | |
| Encumbrances[4] | 12,005,683 | 32,258,452 | 37,780,277 |
| Transfers Out[5] | 24,899,586 | 23,086,437 | 27,535,579 |
| Balance Forward Out | 72,322,404 | 91,465,768 | 12,664,963 |
| Available for Capital Projects[6] | 15,480,740 | 61,420,120 | 102,689,494 |
| Cancellations | 51,429,792 | 38,721,299 | 0 |
| Total Uses | $555,112,797 | $585,938,016 | $521,839,685 |

[1] The increase in state appropriations in fiscal years 2005 and 2006 resulted from capital projects funding of $72 million and $101 million, respectively.
[2] Dedicated receipts are available to the department to fund its operations. In addition to the dedicated receipts shown in this table, the department collected $361,378,824 for the three fiscal years that it deposited into the state treasury as nondedicated receipts. Nondedicated receipts are not available to the department for spending.
[3] Funds were transferred in from the Department of Revenue for motorboat and snowmobile tax revenue and the Department of Public Safety for revenue from the sale of critical habitat license plates, according to statutory provisions.
[4] Encumbrances at year end reserve a portion of the fund balance for specific liabilities yet to occur.
[5] Funds were transferred out to the Department of Revenue to support natural resource lands in cities/counties, the Department of Finance for a trust fund for forest revenue, and the University of Minnesota as a partial match for Higher Education Act Title 1, according to statutory provisions.
[6] Cancellations totaling $51 million occurred after July 31, 2007. This resulted in a reduction of funds available for capital projects.

Source: Minnesota Accounting and Procurement System as of July 31, 2007.

The Office of the Legislative Auditor selected the Department of Natural Resources for audit based on an annual assessment of state agencies and programs. We used various criteria to determine the entities to audit, including the size and type of each agency's financial operations, length of time since the last audit, changes in organizational structure and key personnel, and available audit resources. It had been five years since our last audit of this department.

## Audit Approach

Our audit was conducted in accordance with *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of the department's internal controls relevant to the audit objectives. We used the guidance contained in *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission,[1] as our criteria to evaluate agency controls. The standards also require that we plan the audit to provide reasonable assurance that the department complied with finance-related legal provisions that are significant to the audit. In determining the department's compliance with legal provisions, we considered requirements of laws, regulations, contracts, and grant agreements.

To meet the audit objectives, we gained an understanding of the department's financial policies and procedures. We considered the risk of errors in the accounting records and noncompliance with relevant legal provisions. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined documents supporting the agency's internal controls and compliance with laws, regulations, contracts, and grant provisions.

[1] The Treadway Commission and its Committee of Sponsoring Organizations were established in the mid-1980s by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity.

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# Chapter 2. Personnel and Payroll Expenditures

### *Chapter Conclusions*

***The Department of Natural Resources' internal controls provided reasonable assurance that payroll expenditures were properly authorized, charged to the proper funding sources, and accurately recorded in the state's accounting system, and employee leave records were accurate and complete.***

***For the items tested, the department appropriately paid and charged payroll expenditures to the proper funding sources and complied with material finance-related legal provisions, including leave accrual rate requirements outlined in collective bargaining agreements. However, the department did not consistently review self service time entry transactions, as explained in Finding 1.***

## Audit Objectives

Our audit of personnel and payroll expenditures focused on the following questions:

- Did the department's internal controls provide reasonable assurance that payroll expenditures were properly authorized, charged to the proper funding sources, and accurately recorded in the state's accounting system?

- Did the department's internal controls provide reasonable assurance that employee leave records were accurate and complete?

- Did the department pay employees in compliance with material finance-related legal provisions and applicable bargaining unit agreements?

## Background

Payroll is a significant expenditure for the Department of Natural Resources. During fiscal year 2007, payroll totaled $176 million and comprised about 52 percent of the department's total expenditures.

Personnel and payroll responsibilities are shared by the Department of Natural Resources and two central oversight agencies: the departments of Employee Relations and Finance, which maintain the central personnel and payroll system used by all state agencies. This computer system has many edits that ensure personnel and payroll transactions comply with legal provisions and terms in compensation plans. The system also has extensive on-line policies and procedures to help state agencies record their decisions. However, the Department of Natural

Resources' personnel officers and payroll staff are ultimately responsible for understanding and complying with compensation plan terms and other pertinent legal provisions.

The department charged its payroll expenditures to 12 different state funds in fiscal year 2007. The department charged about 65 percent of its fiscal year 2007 payroll expenditures to the state's General Fund and the Game and Fish Fund. To help ensure that it charged payroll costs to the proper funding source, the department, in conjunction with the Department of Finance, developed an alternate labor distribution table. The table allows employees to charge their payroll hours to specific activity and project codes programmed into the state's payroll system which, in turn, charges the appropriate funding sources in the state's accounting system.

Table 2-1 shows the department's total payroll expenditures for fiscal years 2005, 2006, and 2007.

**Table 2-1**
**Summary of Payroll Expenditures**
**Fiscal Years 2005 to 2007**

| Earnings Type: | 2005 | 2006 | 2007 |
|---|---|---|---|
| Full Time | $132,013,158 | $135,859,273 | $139,964,884 |
| Part time, Seasonal, Labor Service | 20,477,490 | 20,692,379 | 22,080,371 |
| Overtime Pay | 3,902,951 | 4,707,711 | 6,202,637 |
| Premium Pay | 646,068 | 817,353 | 1,206,301 |
| Other Benefits | 6,283,175 | 6,306,335 | 7,006,529 |
| Total | $163,322,842 | $168,383,051 | $176,460,722 |

Source: Minnesota Accounting and Procurement System as of July 31, 2007.

In August 2004, many department employees began using a new self-service time entry process to enter hours worked and leave taken into the state's payroll system. The self service time entry process automated employee timesheets and allowed for electronic supervisory approvals. The department used a standardized exception report to monitor transactions where an employee did not enter their own time, or where the primary supervisor did not authorize hours worked. However, as explained in Finding 1, the department did not consistently perform a review of the exception report throughout the audit scope.

## Current Finding and Recommendation

### 1. The department did not review a key report to validate self service time entry transactions.

During fiscal year 2007, the department did not consistently perform the required review of the self service time entry audit report as required by the Department of Finance's policy.[2] The department reviewed the self service time entry audit report for only two pay periods in fiscal year 2007. The policy requires agencies to review transactions that did not follow the normal

[2] Department of Finance Operating Policy and Procedure PAY0017, *Employee Self Service Time Entry.*

payroll process. The report identifies two types of exceptions, employees that did not complete their own timesheets and timesheets approved by a backup supervisor rather than the primary supervisor. These exceptions indicate a potential breakdown in the control process over the electronic processing of timesheets.

According to the policy, agencies should review, at a minimum, a representative sample of transactions appearing on the report each pay period. In addition, the policy requires a comprehensive review of the report each quarter.

*Recommendation*

- *The department should review the self service time entry audit report each pay period to ensure that employees are completing their own time entry, and primary approvers are approving the time.*

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# Chapter 3. Revenue

## *Chapter Conclusions*

***The Department of Natural Resources' internal controls did not adequately document the review and authorization of adjustments recorded on its integrated revenue accounting system, as explained in Finding 3. In addition, the department did not have adequate internal controls to ensure that it charged fees and recorded revenue according to statutory provisions, as discussed in Finding 4.***

***For the items tested, the department complied with applicable legal and policy provisions except that, as discussed in Finding 2, the department did not promptly deposit all receipts as required by statute.***

## Audit Objectives

Our audit of revenue transactions focused on the following questions:

- Did the department's internal controls provide reasonable assurance that the correct amount of revenue was collected, adequately safeguarded, and properly recorded in the accounting records?
- For the items tested, did the revenue collections comply with applicable legal and policy provisions?

## Background

The Department of Natural Resources receives revenue from various local governmental units and agents, as well as regional offices located throughout the state. Table 3-1 summarizes these receipts:

**Table 3-1**
**Receipts by Type**
**Fiscal Years 2005 to 2007**

| Revenue Type | 2005 | 2006 | 2007 |
|---|---|---|---|
| License Bureau | $ 71,418,924 | $ 76,791,472 | $ 77,751,818 |
| Forestry | 31,927,303 | 41,155,767 | 33,597,785 |
| Land and Minerals | 25,871,127 | 25,792,031 | 33,642,695 |
| Management Resources | 22,911,199 | 30,690,849 | 34,654,569 |
| Parks | 15,346,798 | 15,609,439 | 16,088,728 |
| Fisheries | 12,308,258 | 12,512,355 | 12,739,571 |
| Wildlife | 9,161,324 | 8,760,701 | 8,739,510 |
| Ecological Services | 6,771,596 | 8,473,610 | 7,281,963 |
| Waters | 6,145,609 | 6,801,619 | 6,928,227 |
| Trails and Waterways | 2,825,513 | 2,106,132 | 1,499,004 |
| Enforcement | 1,377,711 | 1,537,504 | 1,229,492 |
| Other[1] | 9,365,912 | 14,773,665 | 13,251,284 |
| Total | $215,431,274 | $245,005,144 | $247,404,646 |

[1]Other revenue type is comprised of receipts from regional offices and other miscellaneous sources.

Source: Minnesota Accounting and Procurement System as of July 31, 2007.

The department collected a variety of fees, such as title and registration fees for recreational vehicles, license fees for hunting and fishing, and entrance fees for state parks. The Legislature established the individual fees to be charged and collected in state statute. The department relied on its eight operating divisions to monitor accounts receivable and invoicing and on its Office of Management and Business Services to process and control the collection of revenues.

In March 2000, the department replaced its paper-based hunting and fishing license system with an electronic licensing system that allowed for purchases of fishing licenses through point of sale, telephone ordering, and internet-based transactions. In fiscal year 2005, the department implemented a new web-based integrated revenue accounting system.[3] This new integrated revenue accounting system allows the department to centrally process all revenue and gave operating divisions the option to centralize their recording and invoicing of accounts receivable. The integrated revenue accounting system integrates data from other core division revenue systems, such as the electronic licensing system and systems for park, forestry, and land management revenue.

## Current Findings and Recommendations

**2. Prior Finding Not Implemented: The department did not promptly deposit all receipts nor provide adequate safeguards for undeposited funds.**

The department's Office of Management and Business Services did not always deposit receipts in accordance with statutory timelines. Delays occurred because some operating divisions did not use the integrated receipt accounting system and did not promptly provide the office with

[3] The department refers to the new web-based integrated revenue system as WIRES.

information it needed to process the receipt. In addition, the department did not safeguard undeposited receipts with a log of payments received.

The department's centralized mailroom forwards receipts to the department's Office of Management and Business Services. The office matches receipts to accounts receivable in the integrated revenue accounting system and prepares the deposits. However, when an operating division does not use the integrated receipt accounting system for its accounts receivable, the office often needs additional information from the operating division to process the check for deposit. Sometimes, the need to obtain this information results in deposit delays and noncompliance with statutory deposit requirements,[4] which require deposit of all receipts exceeding $250 within 24 hours of receipt. Although the Department of Finance granted a waiver to the department allowing for deposit delays during some peak registration processing periods, the waiver does not apply to these delays since they result from processing inefficiencies.

The department's Office of Management and Business Services stores the receipts in a locked safe until it receives the necessary accounts receivable information from the operating divisions. However, because the department does not maintain a record or log of the receipts held, it cannot assure the ultimate deposit of all receipts. By not creating a log of receipts received, the department increased the risk of receipts being lost or stolen without detection.

*Recommendations*

- *The department should promptly deposit receipts in accordance with statutory provisions.*

- *The department should require all divisions to use the integrated revenue accounting system and to log all receipts delayed for processing at the end of each day.*

**3. The department did not adequately document its review and authorization of adjustments recorded on the integrated revenue accounting system.**

Since 2003 the department has worked to reconcile its subsystems, including the electronic licensing system on the new integrated revenue accounting system, to the state's accounting system. Although old unresolved differences continue to exist,[5] the department performed timely monthly reconciliations and corrected identified variances beginning in July 2006. However, it did not adequately document the adjustments it made to the integrated revenue accounting system. Divisions typically explained variances through email. This did not provide evidence of supervisory review and approval of an adjustment or documentation to support its appropriateness.

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[4] *Minnesota Statutes* 2007, 16A.275.

[5] Unresolved differences of about $473,000 and $119,000 existed at June 30, 2007, for the electronic licensing system and the integrated revenue accounting system, respectively.

*Recommendation*

- *The department should document its review and authorization of adjustments to the new integrated revenue accounting system.*

**4. The department did not have adequate internal controls to ensure that it charged fees and recorded revenue according to statutory provisions.**

The department did not establish internal controls to verify that the fees it charged were in accordance with statutory rates and did not review transaction codes used in the new integrated revenue accounting system designed to direct receipts to specific accounts, as intended by statutes. The department's divisions submitted requests to the Office of Management and Budget Services for transaction code changes and rate changes made to fees by the Legislature. The office made the changes based on these requests. However, the office did not validate nor require the divisions to document the legislation supporting the new or adjusted rates or how the department should distribute the fees.

The department misdeposited one of five receipt transactions tested. As a result, the department deposited $6,293 to the Game and Fish Fund that should have been coded to the Water Recreation Fund. In addition, the department sometimes used one receipt code for more than one type of receipt, making it difficult to determine whether it had recorded the receipts to the proper fund. Without proper controls, the department may not collect the statutorily required fees and may allow receipts to be inappropriately used. In addition, the state's financial statements may be misstated.

*Recommendations*

- *The department should verify the fees charged and the allocation of receipts to the proper accounts in the integrated revenue accounting system.*

- *The department should develop a process for changing fees and revenue allocations that involves appropriate authorization, validation of the statutory provisions, and verification that the change was made accurately in the system.*

# Chapter 4. Governmental Grants and Subsidies

### *Chapter Conclusions*

***The Department of Natural Resources had adequate internal controls to ensure that it accurately disbursed and recorded grant expenditures in the accounting records. For the items tested, the department awarded grants in compliance with state contract and grant requirements and specific spending limits in the appropriations laws.***

## Audit Objectives

Our audit of grant and subsidy transactions focused on the following questions:

- Were the department's internal controls adequate to ensure that it accurately disbursed and recorded grant expenditures in the accounting records?
- Were the department's internal controls adequate to ensure that grantees used grant funds appropriately and complied with other provisions as specified in grant agreements?
- Did the department award grants in compliance with state contract or grant requirements and specific spending limits in the appropriations?

## Background

The Department of Natural Resources issued grants for the purpose of protecting and managing the state's natural resources. Most grants went to local units of government and nonprofit organizations to assist in the development, implementation, and operation of a wide variety of resource programs. Grantees used the funding for salary costs and other related program costs as identified in grant agreements or appropriation laws. The department distributed grant funds based on statutory funding formulas or other criteria established in appropriation laws and grant funding contracts.

There were no findings in this area.

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# Chapter 5. Computer Systems Security Controls

### *Chapter Conclusions*

***The Department of Natural Resources did not have adequate internal controls to ensure that it appropriately limited employee access to the state's accounting system and its integrated revenue accounting system. In addition, the department did not review for incompatible access to computer subsystems and the state's accounting system on a periodic basis.***

## Audit Objectives

Our audit of the systems security access focused on the following questions:

- Were the department's internal controls adequate to ensure that access to computer subsystems and the state's accounting system are limited to the duties of individuals authorized to work in each respective area?

- Were the department's internal controls adequate to ensure that access to computer subsystems and the state's accounting system are reviewed for incompatible groups on a periodic basis?

## Background

The department uses the state's accounting system to record receipts and disbursements. The department uses other internal subsystems to manage divisional receipts. The department's web-based integrated revenue accounting system, implemented in fiscal year 2005, tracks receipts and accounts receivables. The objective of the integrated revenue accounting system was to improve compliance with state law and governmental accounting requirements, recognize revenue as early as possible, increase collection of receivable debt, and improve revenue reporting and forecasting.

The department's goal is to have all receipts recorded in the integrated revenue accounting system, either through an interface or directly entered by a department employee. The integrated revenue accounting system uploads revenue data daily to the state's accounting system through an interface process.

The department had the following weaknesses in its administration of subsystem and state computer system security.

## Current Findings and Recommendations

**5. The department did not adequately monitor employee access to the integrated revenue accounting system. It also did not establish good password control policies.**

The department did not comply with its security policy[6] governing access to the web integrated revenue system. The department developed the policy to ensure that it controlled system access to the web integrated revenue system in accordance with the Data Practices Act and vendor software license requirements. The policy outlines the approval process for establishing, modifying, and deleting system access. In addition, the security policy did not include appropriate password change controls.

- Supervisors did not timely alert their security liaison when an employee changed jobs or discontinued employment. According to the security policy, supervisors must notify the security officer immediately of changes in employment status or job responsibilities.

- Passwords used to access the integrated revenue accounting system do not automatically expire, and the policy does not require employees to periodically change their passwords. Information technology standards require users to change their passwords periodically to prevent a security breach. Requiring complex passwords, along with automatic expiration dates for passwords between 30 to 60 days, will force users to change their passwords and provide better control over password security.

The department's internal control policies provide a baseline for employees about management's expectations. Monitoring procedures provide oversight and compliance to reduce the department's risk exposure from intentional and unintentional errors. Without proper monitoring, noncompliance with established controls could occur on a frequent basis and remain undetected.

*Recommendations*

- *The department needs to ensure that supervisors promptly notify its system security administrators about employee changes and terminations.*

- *The department needs to revise its policy to require appropriate password controls, including password complexity, periodic change requirements, and automatic expirations.*

[6] Department of Natural Resources Policy Number 01:03: WIRES System Access Policy.

**6. Prior Recommendation Partially Implemented: The department did not adequately limit and monitor access to the state's accounting system or its electronic licensing system.**

The department allowed employees to have incompatible access to the state's accounting system and its electronic licensing system, as follows:

- As of June 2007, the department had given 110 employees access to the state's accounting system. Of these, nearly 50 percent had access to incompatible security groups.[7] In response to a similar prior audit issue,[8] the department implemented a compensating control policy to mitigate this weakness: The department's Office of Management and Budget policy[9] required each division to review a sample of payments each month for appropriateness. However, the department did not monitor divisions to ensure they performed the required review, and at least one division had not been following the policy.

- The department assigned many employees access to incompatible security groups within its electronic licensing system. The department did not establish security standards for job descriptions and did not identify effective control methods to mitigate risks in situations where it decided it was not feasible to avoid assigning a person incompatible functions.

One of the most important elements of good internal control is the segregation of incompatible duties. The department should limit an employee's access to its computer systems and the state's accounting system to what is needed for the employee to perform his job. Allowing incompatible access increases the risk of intentional or unintentional errors occurring without detection. If the department permits incompatible access privileges, it must monitor controls designed to detect inappropriate transactions.

*Recommendations*

- *The department should carefully assess the need for an employee to have incompatible access to its computer systems or the state's accounting system.*

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[7] Incompatible security groups are those combinations of security groups that allow an employee to control a transaction from initiation to completion. For example, the duties of purchasing, receiving, and paying for goods are incompatible.
[8] Legislative Audit Report 02-65, dated October 17, 2002.
[9] OMB Policy 05:23.

- *Where incompatible duties must exist, the department should:*
  - *monitor and document division's compliance with its policies designed to review state accounting system transactions subject to greater risk of error or intentional abuse.*
  - *develop security standards for job descriptions, document potentially incompatible security groups, and design and implement effective policies to review electronic licensing system transactions subject to greater risk of error or intentional abuse.*

# Status of Prior Audit Issues As of July 31, 2007

**October 17, 2002 Legislative Audit Report 02-65** covered selected Department of Natural Resources' activities for the three years ended June 30, 2002. The scope of the audit included employee payroll expenditures, license center revenues and cost allocations, tree nursery revenues and expenditures, and fleet management revenues and expenditures. The report contained 17 findings. We did not perform a follow-up on four of the five issues pertaining to fleet management or four of the five issues pertaining to the tree nursery program. The department has resolved findings 1 and 7 related to payroll and finding 10 related to documentation to support tree prices within the tree nursery program. The department has also resolved findings 2 and 5 related to issuing refunds without statutory authority and the suspension of agents. The department continued to have weaknesses related to findings 3, 4, and 6 pertaining to license center revenues not being promptly deposited or not verifying the accuracy of receipts posted to the accounting system and not monitoring access privileges to the electronic licensing system. We repeat our recommendations for these areas in our current findings 2 and 6. The department also had not resolved finding 17 relating to incompatible access to the state's accounting system, and it is included in our current finding 6.

**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
500 Lafayette Road • St. Paul, MN • 55155-4037

December 18, 2007

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

Dear Mr. Nobles:

Thank you for the opportunity to respond to the findings of the audit of the Department of Natural Resources for the five years ending June 30, 2007.

**Chapter 2. Personnel and Payroll Expenditures**
**Audit Finding 1: The department did not review a key report to validate self service time entry transactions.**

*Audit Recommendation:*

- ***The department should review the self time entry audit report each pay period to ensure that employees are completing their own time entry, and primary approvers are approving the time.***

The department concurs with the above audit recommendation relating to the review of the self service entry audit report in compliance with Department of Finance Operating Policy and Procedure PAY0017.

Resolved: Lisa Hager (Human Resources Operations Manager) reviews the self service time entry audit report in compliance with the Department of Finance Operating Policy and Procedure PAY0017.

**Chapter 3. Revenue**
**Audit Finding 2: Prior Finding Not Implemented: The department did not promptly deposit all receipts nor provide adequate safeguards for undeposited funds.**

*Audit Recommendations:*

- ***The department should promptly deposit receipts in accordance with statutory provisions.***



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- ***The department should require all divisions to use the integrated revenue accounting system and to log all receipts delayed for processing at the end of each day.***

The Department concurs with the above audit recommendation relating to promptly depositing receipts.

Resolved: All units within the Department are currently either depositing receipts promptly per the statute or we have a new waiver from the Department of Finance allowing additional time based on periodic high volume due to statutory provisions or other legitimate business considerations, or based on distance from banking facilities.

In addition, the Department concurs with the audit recommendation to use the integrated revenue accounting system (WIRES).

Partially Resolved: All DNR systems associated with significant revenue generating activities are currently interfaced with the WIRES system except for the Lands system. The first phase of the project to replace the Lands system was funded by the 2007 legislative session. The new system will be integrated into the state's financial system. In the interim, DNR will deposit revenues that lack critical information in a clearing account while units obtain and provide the missing information.

Locations that have revenues at the end of a business day that have not been entered in DNR systems will be logged with dollar amounts with one exception. The exception is where high volumes are such that envelopes containing checks remain unopened at the end of the day (e.g., OMBS- volunteer donations during donation drives, and Water Permits; License unit- during registration of ATVs, Snowmobiles, and Watercraft). In each case of the exception, the logs will only contain the number of envelopes and the date they were received within the department. In all cases, all receipts (including unopened envelopes that are presumed to contain revenue) will be secured in either a safe or a locked room with access restricted to only appropriate DNR personnel. Linda Kelly (OMBS Fiscal Operations and Contracts Supervisor) has developed a set of logs, which will be adapted to all DNR revenue sites and be required to be used by June 30, 2008.

**Audit Finding 3: The department did not adequately document its review and authorization of adjustments recorded on the integrated revenue accounting system.**

*Audit Recommendations:*

- ***The department should document its review and authorization of adjustments to the new integrated revenue accounting system.***

The Department concurs with the above audit recommendation relating to the review and approval of adjustments in the DNR revenue system (WIRES).

Partially resolved: The Office of Management and Budget Services is responsible for reviewing and processing all adjustments in WIRES. A form for requesting adjustments documenting the requestor and the reason for the adjustment has been developed and implemented. OMBS staff must review and approve in writing all adjustments from DNR units before they are entered. Linda Kelly (OMBS Fiscal Operations and Contracts Supervisor) is responsible for reviewing and approving any adjustments submitted by OMBS staff. All approved adjustment requests are retained for audit in OMBS.

By July 1, 2008 Linda Kelly will develop and implement an agency policy and procedure related to revenue system adjustments.

**Audit Finding 4: The department did not have adequate internal controls to ensure that it charged fees and recorded revenue according to statutory provisions.**

***Audit Recommendations:***

- ***The department should verify the fees charged and the allocation of receipts to the proper accounts in the integrated revenue accounting system.***
- ***The department should develop a process for changing fees and revenue allocations that involves appropriate authorization, validation of the statutory provisions, and verification that the change was made accurately in the system.***

The Department concurs with the above audit recommendation relating to verifying statutory authority for fees and the allocations of resultant revenues to the appropriate funds and accounts. We also agree a process is needed for substantiating fee adjustments complying with legislation.

Partially Resolved: OMBS has initiated an inventory of the legal authority including the appropriate fund or account for all revenues deposited in the Department. Diane Campbell (OMBS Financial Operations and Management Reporting Supervisor) will complete this inventory by June 30, 2008. Program Managers will be required to certify and OMBS will confirm the accuracy of this inventory prior to establishing revenue budgets each year in the State's accounting system beginning in FY 2009. Jerry Hampel (Assistant Administrator of OMBS for Budget Management) will be responsible for reviewing fee changes made in Department systems and ensuring they accurately reflect legislative changes.

By the end of the 2008 legislative session Andre Prahl (OMBS Budget Manager) will establish a method to track the status of all pending legislation potentially affecting DNR revenue. She will ensure Jerry and Diane are informed of enacted legislation affecting DNR revenues so the inventory can be updated and system fee changes reviewed.

**Chapter 5. Computer Systems Security Controls**
**Audit Finding 5: The department did not adequately monitor employee access to the integrated revenue accounting system. It also did not establish good password control policies.**

*Audit Recommendations:*

- *The department needs to ensure that supervisors promptly notify its system security administrators about employee changes and terminations.*
- *The department needs to revise its policy to require appropriate password controls, including password complexity, periodic change requirements, and automatic expirations.*

The Department concurs with the above audit recommendations relating to notifications about employee changes to ensure only appropriate staff have access to financial systems and the need for appropriate password controls.

Resolved: Lisa Hager (Human Resources Operations Manager) now notifies Diane Campbell (OMBS Management Reporting Supervisor) of staff changes. Diane and her staff review the changes against the list of those having access to financial systems and notify security administrators of the changes to be made.

Resolved: Password controls in the Web Integrated Revenue System (WIRES) have been updated. Passwords must now be at least eight characters in length and must be changed every 60 days or they expire.

**Audit Finding 6: Prior Recommendation Partially Implemented: The department did not adequately limit and monitor access to the state's accounting system or its electronic licensing system.**

*Audit Recommendations:*

- *The department should carefully assess the need for an employee to have incompatible access to its computer systems or the state's accounting system.*
- *Where incompatible duties must exist, the department should:*
  *-- monitor and document division's compliance with its policies designed to review state accounting system transactions subject to greater risk of error or intentional abuse.*
- *-- develop security standards for job descriptions, document potentially incompatible security groups, and design and implement effective policies to review electronic licensing system transactions subject to greater risk of error or intentional abuse.*

The Department concurs with the above audit recommendation relating to incompatible access to DNR or statewide systems.

Partially Resolved: We have enhanced our compensating control for incompatible access to statewide systems to include positive verification that compensating control reports have been generated and reviewed. Linda Notch (OMBS Business Services Section Manager) is responsible for getting the confirmation of these reviews from the identified individuals on a monthly basis.

We have identified three separate sets of transactions in the Electronic Licensing System (ELS) which we feel are potentially subject to error or abuse. They are: license voids at the counter, free licenses issued due to technical system/printer problems or delivery problems, and free licenses issued to military or former military personnel or the disabled.

We have developed and are implementing three separate compensating control mechanisms to mitigate these risks.

- All voided licenses/registrations by License Center staff will be included with their daily deposit and will be compared to each agent's void report. Currently reviewed by Pam O'Leary (Customer Service Specialist Sr.) or Ray Kappers (Customer Service Specialist Prin.). All voided licenses will then be processed as "returned" by Linda Schneider (Accounting Officer Int.)
- Only two individuals have access to the password protected no-fee hunting and fishing license terminal. Ron Kullmann (Project Administrator) and Ray Kappers. All no-fee license transactions will have corresponding hard copy documentation describing the reason for the no-fee transaction and only three individuals have access to the registration/titling no-fee transaction system. John Nordby (OSS1), Doug Madow (Customer Service Specialist Prin.) and Kevin Habeck (Customer Service Specialist Int.). All no-fee license transactions will have corresponding hard copy documentation describing the reason for the no-fee transaction.
- A report by agent location documenting issuance of free licenses to disabled citizens and military or former military personnel will be reviewed monthly by the ELS Program Manager (Steve Michaels) to detect unusually heavy activity at any site.

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

Sincerely,

Mark Holsten

Mark Holsten, Commissioner
Department of Natural Resources