OLA
OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

Iron Range Resources

Internal Control and Compliance Audit

Fiscal Years 2007 through 2009

September 11, 2009 **Report 09-31**

FINANCIAL AUDIT DIVISION
Centennial Building – Suite 140
658 Cedar Street – Saint Paul, MN 55155
Telephone: 651-296-4708 • Fax: 651-296-4712
E-mail: auditor@state.mn.us • Web site: http://www.auditor.leg.state.mn.us
Through Minnesota Relay: 1-800-627-3529 or 7-1-1

Financial Audit Division

The 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 has a staff of 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.

The Office of the Legislative Auditor (OLA) also has a Program Evaluation Division, which evaluates topics periodically selected by the Legislative Audit Commission.

Reports issued by both OLA divisions are solely the responsibility of OLA and may not reflect the views of the Legislative Audit Commission, its individual members, or other members of the Minnesota Legislature. For more information about OLA reports, go to:

http://www.auditor.leg.state.mn.us

To obtain reports in electronic ASCII text, Braille, large print, or audio, call 651-296-4708. People with hearing or speech disabilities may call through Minnesota Relay by dialing 7-1-1 or 1-800-627-3529.

To offer comments about our work or suggest an audit, investigation, or evaluation, call 651-296-4708 or e-mail auditor@state.mn.us.

September 11, 2009

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Sandy Layman, Commissioner
Iron Range Resources

Members of the Iron Range Resources Board

This report presents the results of our internal control and compliance audit of Iron Range Resources for the period July 1, 2006, through February 28, 2009.

The audit was conducted by Brad White, CPA, CISA, CFE (Audit Manager) and Susan Kachelmeyer, CPA, CISA (Auditor-in-Charge), assisted by auditors Mark Allan, CPA and John Hakes, CPA.

This report is intended for the information and use of the Legislative Audit Commission and the management of the Iron Range Resources. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 11, 2009.

We received the full cooperation of the Iron Range Resources' staff while performing this audit.

/s/ James R. Nobles	*/s/ Cecile M. Ferkul*
James R. Nobles Legislative Auditor	Cecile M. Ferkul, CPA, CISA Deputy Legislative Auditor

Table of Contents

Report Summary

Conclusions

For the areas audited, the Iron Range Resources' internal controls were generally adequate to ensure it accurately paid vendors and employees, produced reliable financial records, and complied with most finance-related legal requirements. However, the agency had some internal control weaknesses in its processes for receipts, financial systems' security, payroll and employee expenses, and certain aspects of its grants and loans.

For the items tested, the agency generally complied with finance-related legal requirements, except for timely deposit of some receipts, travel benefits, and certain contract requirements. The agency did not fully resolve two prior audit findings.

Findings

- Iron Range Resources did not adequately monitor certain grants and did not always ensure borrower adherence to certain financial requirements called for in loan agreements. (Findings 1 and 2, pages 7 and 8)
- Prior Finding Partially Resolved: Iron Range Resources did not effectively restrict or monitor employee access to the state's financial systems. (Finding 3, page 8)
- Prior Finding Not Resolved: Iron Range Resources did not provide an independent review of biweekly payroll transactions to ensure it accurately paid its employees. (Finding 4, page 9)
- Iron Range Resources did not promptly record and deposit Giants Ridge Golf and Ski receipts, and other agency receipts were not tightly controlled. (Findings 5 and 6, page 10)
- Iron Range Resources' controls did not include sufficient documentation and monitoring to demonstrate compliance with the state travel policy. (Finding 7, page 11)
- Iron Range Resources did not sufficiently protect certain not public data obtained from temporary workers at Giants Ridge. (Finding 8, page 13)

Audit Objectives and Scope

Internal controls and compliance for fiscal years 2007, 2008, and 2009 (through February 28, 2009) over the following selected areas:

- Financial management
- Giants Ridge & selected receipts
- Grants & loans
- Human resources & payroll expenditures
- Employee business expenditures
- Operating & administrative expenditures

Iron Range Resources

Agency Overview

Iron Range Resources is a state economic development agency created by the Legislature in 1941 to develop and diversify the economy of the iron mining areas of northeastern Minnesota. Iron Range Resources is under the leadership of Commissioner Sandy Layman, who was appointed in 2003 by Governor Tim Pawlenty. The agency's annual budget and most economic development proposals are subject to the review and approval of a 13-member Iron Range Resources Board. The board is made up of five state senators, five state representatives, and three citizens from the area.

The agency's funding comes primarily from a percentage of the production taxes assessed on area iron mining companies.[1] It also receives revenues from other sources, such as revenue from operating the Giants Ridge Golf and Ski Resort and interest earned on balances held in the state treasury. The agency manages monies dedicated for the Douglas J. Johnson Economic Protection Trust Fund (formerly known as the Northeast Economic Protection Trust Fund Account) pursuant to *Minnesota Statutes*.[2] All of the agency's unspent funds are invested in the state treasury and allowed to carry forward into future periods.

An important role of the agency is to provide grant and loan funding to local governmental entities, nonprofit organizations, and private companies within the service area. The goal of these grants and loans is to assist new and existing businesses in job creation and retention and to provide communities with resources to improve their infrastructure.

The following table shows the agency's sources and uses of financial resources by fund for the fiscal year ended June 30, 2008.

[1] The mining companies pay this production tax in lieu of property taxes.
[2] *Minnesota Statutes* 2008, 298.291 to 298.294.

Table 1
Sources and Uses of Financial Resources by Fund
Fiscal Year 2008

	Iron Range Resources Fund	Douglas J. Johnson Economic Protection Trust Fund	Giants Ridge Fund
Balance Forward-In (from 2007)	$34,000,366	$92,554,998	$3,204,438
Sources:			
Mining Tax Revenues	$24,262,849	$4,494,975	$ 0
Giants Ridge Receipts	0	0	4,231,585
Loan Repayments	564,849	3,215,679	0
Interest Earnings	2,092,120	3,353,634	0
Other	4,099,636	139,997	0
Transfers-In[1]	9,175,645	0	4,560,551
Total Sources	$40,195,099	$11,204,285	$8,792,136
Uses:			
Grants[2]	$26,204,198	$ 0	$ 4,000
Loans	0	3,102,500	0
Personnel/Payroll	2,508,947	888,564	1,414,820
Professional/Technical Services	311,796	87,169	2,643,758
Supplies, Equipment, Improvements	430,657	9,313	712,516
Employee Travel	104,930	36,486	1,611
Other	718,751	219,873	1,055,143
Debt Service	1,127,794	156,631	1,533,716
Unexpended Encumbrances[3]	14,057,172	200,000	1,065
Transfers-Out[1]	4,560,551	0	0
Total Uses	$50,024,796	$ 4,700,536	$7,366,629
Balance Forward-Out (to 2009)	$24,170,669	$99,058,747	$4,629,945

[1]The Iron Range Resources Fund transferred in additional mining revenues collected by the Department of Revenue, and the Giants Ridge Golf and Ski Resort Fund transferred in an operating subsidy from the Iron Range Resources Fund for fiscal year 2008.

[2]Fiscal year 2008 grants included $10 million provided to a nonprofit organization, called Ironworld Development Corporation, to create an endowment to operate the Minnesota Discovery Center (formerly known as Ironworld).

[3]Unexpended encumbrances include amounts reserved for obligations, mainly grants and loans, that the agency had not yet paid as of February 28, 2009.

Source: Minnesota Accounting and Procurement System.

Objectives, Scope, and Methodology

Our audit of selected financial activities of Iron Range Resources included receipts, expenditures for personnel and payroll, travel, other administrative expenditures, and management of grants and loans. This was not a comprehensive audit of all the financial operations of the agency.

The audit focused on the following objectives for the period July 1, 2006, through February 28, 2009:

- Were Iron Range Resources' internal controls effective over selected financial cycles and programs to ensure that it safeguarded its financial resources, complied with legal provisions, and produced reliable financial data?

- For the items tested, did Iron Range Resources comply with significant finance-related legal requirements over its financial activities, including state and federal laws, regulations, contracts, and applicable policies and procedures?

- Did Iron Range Resources resolve prior audit recommendations pertaining to internal controls over receipts, expenditures for certain payroll and administrative activity, and grant and loan transactions?[3]

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

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

---

[3] Office of the Legislative Auditor's Financial Audit Division Reports: #02-66, *Iron Range Resources and Rehabilitation Agency*, issued October 31, 2002; #05-52, *Iron Range Resources*, issued October 5, 2005; and #08-22, *Iron Range Resources Loans to Excelsior Energy, Inc.*, issued September 25, 2008.

We used various criteria to evaluate internal control and compliance. We used as our criteria to evaluate agency controls the guidance contained in the *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission.[4] We used state laws, regulations, and contracts, as well as state policies and procedures and the agency's internal policies and procedures as evaluation criteria over compliance.

Conclusions

For the areas audited, Iron Range Resources' internal controls were generally adequate to ensure it safeguarded its financial resources, produced reliable financial records, and complied with most legal requirements. However, the agency had some weaknesses in its internal controls for receipts, employee access to financial systems, payroll and employee expenses, and certain aspects of its grants and loans.

For the items tested, the agency generally complied with finance-related legal requirements, except for timely deposit of some receipts, travel benefits, and certain contract requirements.

The agency resolved seven prior findings related to marketing, personnel, its employee ridesharing program, and grant and loan activity. The agency did not fully resolve two prior audit findings, which are repeated as findings 3 and 4 in this report.

The following *Findings and Recommendations* further explain the exceptions noted above.

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

Findings and Recommendations

Finding 1

Iron Range Resources did not adequately monitor its grants.

Iron Range Resources did not completely follow the state's grant administration policy that requires that agencies monitor grantee compliance with grant provisions.[5] The state's policy requires at least one monitoring visit per grant period on all grants over $50,000 and at least annual monitoring visits on grants of over $250,000. Although the policy allows agencies to conduct monitoring visits in person or by telephone, it recommends that the visits occur in person whenever possible. The agency's own policy expands its monitoring responsibilities to all grants and provides examples of ways to fulfill these duties. Without monitoring, the agency is less able to properly assess progress of grant projects and perform timely responses to potential problems. The agency had the following weaknesses in its grant monitoring practices:

- The agency did not monitor some school districts' compliance with requirements in certain grant contracts. For 9 of 15 grants we tested, the agency failed to obtain the district's detail of project materials and labor costs; and for one grant, the agency did not obtain invoices from the school district to substantiate the costs incurred under the grant.

- The agency performed an onsite visit at only one of its 64 grant projects completed from July 2006 through February 2009. Onsite visits provide oversight and ensure that the grantee complied with the provisions of the grant contract. Without monitoring, the agency has increased the risk that the grant project was not satisfactorily performed.

Iron Range Resources has responsibility to monitor a wide variety of grant projects. Grants were awarded to school districts, local governments, and nonprofit entities within the taconite assistance area for projects involving construction, demolition, and building improvements and were funded either solely or in-part by Iron Range Resources. Grants to school districts ranged from $600,000 to $3.6 million for a total of $15 million in fiscal year 2007. Grants disbursed to other entities ranged from $625 to $11 million from July 1, 2006, through February 29, 2009.

[5] Department of Administration, Office of Grants Management, Operating Policy and Procedure #08-10.

Recommendation

- *Iron Range Resources should follow state and agency grant policies to ensure that grant projects are monitored throughout all phases of the grant.*

Finding 2

Iron Range Resources did not always obtain certain financial information it required in its loan agreements with borrowers.

Iron Range Resources did not always obtain from borrowers certain financial information required by the loan agreements. For two of the eight loans we tested, the agency failed to obtain and review financial statements required by those loan agreements for a $1.6 million loan and a $2 million loan, respectively. Failure to obtain this information could expose the agency to a greater risk of lending to borrowers who may default on the loan or decrease the agency's ability to make informed and timely decisions regarding the terms of repayment in order to avoid foreclosure or default.

Recommendation

- *Iron Range Resources should obtain and review borrowers' financial information, as required by loan agreements.*

Finding 3

Prior Finding Partially Resolved: Iron Range Resources did not effectively restrict or monitor employee access to the state's financial systems.

The agency did not effectively eliminate or mitigate incompatible employee access to the state's procurement/accounting and personnel/payroll systems when processing its financial transactions. Since 2002, in response to our audit recommendation, the agency reduced the number of employees with incompatible access from seventeen to six. Those six employees had incompatible access to initiate a purchase and process the vendor payment and two employees had incompatible access to initiate and process both personnel and payroll transactions without another employee's involvement.

While the agency distributed monthly spending reports to program supervisors and conducted an independent review of payroll transactions for three pay periods, neither control was sufficient to prevent or detect errors and fraud. The spending reviews were not designed to trace transactions back to source documentation and did not address: 1) the expectations and steps involved in performing the review, 2) the frequency and monitoring of those reviews, and 3) prescribed channels for reporting exceptions.

Segregation of incompatible duties is a fundamental internal control designed to prevent or detect errors or irregularities from occurring as employees process financial transactions in the accounting system. State policy requires that agencies limit system access to only those duties essential to a position's responsibilities.[6] If it is not feasible to segregate duties, the state's policy requires that state agencies develop a written plan identifying mitigating controls.[7]

Recommendations

- *The agency should eliminate incompatible employee access to the state's financial systems or develop, document, and monitor mitigating controls that provide independent scrutiny and review of the activity processed by those employees.*
- *The agency should periodically review employees' security profiles in its financial systems to ensure that access is limited to the profiles necessary for assigned job responsibilities.*

Finding 4

Prior Finding Not Resolved: Iron Range Resources did not provide an independent review of biweekly payroll transactions to ensure it accurately paid its employees.

The agency did not adequately review a required payroll report to support the accuracy of reported hours worked, leave taken, pay rates processed, lump sum transactions, and employee expense reimbursements.

State payroll policy requires state agencies to review the bi-weekly payroll register report immediately following the data entry and payroll processing for the pay period.[8] This process needs to occur each pay period as a way of assuring the accuracy of information processing. Considering the incompatible access provided to two employees, this report provides for the important independent review to verify that payroll hours were input correctly and that higher risk transactions, such as severance, lump sum payments, or expense reimbursements, were accurately processed and authorized.

Recommendation

- *The agency should conduct an independent review of its payroll register each pay period to verify the accuracy of transactions recorded on the state's personnel and payroll system.*

[6] SEMA4 Security Policy HR045.
[7] Department of Management and Budget Policy 1101-07.
[8] Department of Management and Budget Policy PAY0028.

Finding 5

Iron Range Resources did not deposit or record Giants Ridge receipts in a timely manner.

The agency was late to deposit its Giants Ridge Golf and Ski cash and check receipts in the state treasury and was late in recording cash, check, and credit card receipts in the accounting system. The agency operated a ski resort and two golf courses at Giants Ridge that were open up to seven days a week during their respective seasons. However, the agency generally made deposits of cash and check receipts three days a week. During the other days of the week, the agency collected more than $250 but failed to deposit them daily, as required by state statute.[9] The delay in depositing the cash and check collections increased the risk of loss or theft.

In addition, the agency did not record the receipts in the state's accounting system until several days after the bank deposit. The agency recorded all twelve deposits we tested one to nine days late. From July 1, 2006, through February 28, 2009, daily deposits ranged from a low of a few dollars to nearly $180,000. State policy requires that receipts be recorded in the accounting system on the same business day as the deposit.[10] The state sweeps funds from depository accounts into the state treasury based on the entry in the state's accounting system. The deposits earn investment income after they are swept into the state treasury. Untimely recording of deposits causes the agency to lose interest earnings on its collections.

Recommendations

- *The agency should daily deposit receipts exceeding $250.*
- *The agency should promptly record its receipts in the state's accounting system to maximize the income earned on its state treasury balances.*

Finding 6

Iron Range Resources did not have a controlled process over receipts collected at its Eveleth office, and it did not retain some key receipt records.

The agency did not have adequate internal controls to ensure that certain receipts were deposited. While agency controls provided good assurance that loan collections were recorded in the loan database and reconciled to the accounting system, other receipts were generally handled by one person in the accounting office with a second person assigned responsibility to reconcile the deposits to a list of incoming receipts. The agency had the following weaknesses in its receipt reconciliation process:

[9] *Minnesota Statutes* 2008, 16A.275.
[10] Department of Management and Budget Policy 0602-03.

- The agency did not adequately limit access to its electronic daily receipt lists used to immediately record all incoming money. The agency kept the receipt lists on a shared network that could be accessed and changed by most employees of the agency. This unfettered access to the receipt lists would allow an employee to alter the list without detection in order to hide errors or irregularities.

- The agency did not completely verify that its receipt list agreed to its daily deposit report. Instead, the agency "spot checked" the activity once a month by randomly picking four days. Without a complete and timely verification, the agency cannot assure that it deposited all receipts.

- The agency did not retain the receipt lists for a sufficient period of time. The state's record retention policy requires that supporting documentation be kept a minimum of the current fiscal year plus the three preceding fiscal years.[11] However, the agency had deleted all electronic receipt lists for receipts prior to July 1, 2008.

Receipt collections pose a risk for the agency that must be highly controlled to prevent loss or theft. Internal control weaknesses may have allowed errors or irregularities to occur without detection and provided an opportunity for manipulation of records and loss of funds.

Recommendation

- *The agency should improve controls over its handling of receipts by:*
  - *Restricting access to the receipt lists to limit which staff can update the daily receipt lists as part of their job duties.*
  - *Providing a frequent and ongoing reconciliation of the receipt lists to deposits.*
  - *Retaining the receipt lists for a minimum of the current fiscal year and the three preceding fiscal years.*

Finding 7

Iron Range Resources' controls did not include sufficient documentation to effectively monitor and demonstrate compliance with the state's travel policy.[12]

The agency did not always adequately monitor or document certain travel expenses, lodging choices, and employee reimbursements and was not always in compliance with state travel and purchasing cards' activity policies. Management and staff regularly traveled in-state on agency business and, while the agency did establish some level of control, it did not consistently monitor and require documentation to ensure compliance. State policy requires each agency to

[11] http://www.mmb.state.mn.us/doc/hr/retention/retention-fin.pdf.
[12] Department of Management & Budget Policy PAY 0021.

develop a plan for establishing, implementing, and maintaining an effective internal control system.[13]

Our testing of a sample of travel-related payments identified various control weaknesses. Examples included the following:

- The agency sometimes paid for employee lodging more than was authorized. In one instance, the agency paid $179 per night for lodging for one employee, but the agency's authorization was for $130 per night. In another case, the agency did not document why it paid for a room that had features that made it ineligible for the lower government rate. State policy requires that an employee who incurs expenses for lodging should select accommodations that are reasonably priced.

- The agency allowed one employee to lodge at a location farther away from a training site than many other available accommodations, resulting in reimbursement for an additional 183 miles for the trip. The agency did not document the employee's assertion that cheaper lodging offset the cost of the added mileage. Other mileage claims had distances that were not supported by documentation, such as internet mapping tools, as suggested in the state travel policy.

- The agency did not adequately review hotel receipts to identify and exclude direct payment of ancillary expenses, such as communications and parking charges. While there was no overcharge to the state, 8 of 27 lodging invoices tested included ancillary expenses that instead were supposed to be paid by the employee and reimbursed.

- The agency did not require employees to provide conference agendas to support meal reimbursements and, as a result, increased the risk that an employee might be reimbursed for a meal that was already paid as part of the conference registration fee.

In addition, the agency did not compare travel costs it reimbursed to employees to travel costs it paid directly to vendors or paid on an employee's state purchasing card. Such a comparison could help prevent or detect a duplicate payment.

Finally, the agency did not have a formal and independent process for monitoring personal travel benefits that employees earned while on state business. While employees seemed aware of the statutory provisions that prohibited employees from earning frequent flyer and hotel reward benefits from state employment, they were generally allowed to track their own travel benefits and monitor usage.[14]

[13] Department of Management and Budget Policy 0102-01.
[14] *Minnesota Statutes* 2008, 15.435 and 43A.38, subd. 2.

Recommendation

- *The agency should improve internal controls over travel-related costs by:*
  - *Monitoring and documenting approval of lodging choices, especially when more costly options are taken.*
  - *Reviewing supporting lodging receipts for proper rates and miscellaneous charges.*
  - *Requiring that mileage be supported by internet distance measurements and conference agendas be provided to control meal claims.*
  - *Comparing travel costs reimbursed to employees to those costs paid directly to the vendor or through employees' purchasing cards.*
  - *Establishing a formal process to report and monitor employees' personal benefits earned while on state-paid travel.*

Finding 8

Iron Range Resources did not sufficiently protect certain not public data obtained from temporary workers at Giants Ridge.

The agency did not protect the social security numbers of some temporary employees who recorded this information on outdated timesheets. State statutes define an individual's social security number as not public data.[15] In addition, the agency did not adequately protect the temporary employees' bank account information. Bank account information is also not public, because it could be used inappropriately if not protected.[16] This information, which is supplied during the application process, was routed through one to four agency personnel before reaching its permanent filing location in an unlocked drawer. We are not aware of any compromise of this social security number or bank account data; however, having that information displayed on timesheets or kept in unlocked areas increases the risk that information could be misused and, if so, would require disclosure to the affected individuals.[17]

Recommendation

- *The agency should protect not public data collected from individuals, including social security numbers and banking data.*

---

[15] *Minnesota Statutes* 2008, 13.355, subd. 1.
[16] *Minnesota Statutes* 2008, 16A.626(f).
[17] *Minnesota Statutes* 2008, 13.055, subd. 2.

September 4, 2009

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

Dear Mr. Nobles:

Thank you for the opportunity to review and respond to the findings and recommendations included in the internal control and compliance audit of Iron Range Resources for the time period of July 1, 2006, through February 28, 2009.

With regard to the report's findings and recommendations:

Finding 1
Iron Range Resources did not adequately monitor its grants.

Recommendation:
Iron Range Resources should follow state and agency grant policies to ensure that grant projects are monitored throughout all phases of the grant.

Response:
Iron Range Resources monitors grant activity in a number of ways including review of business plans, development agreements and bid tabulations, and through phone calls, processing of payments, written and e-mail correspondence, grantee reports, media coverage and, of course, site visits. The agency's grant activity has increased significantly, in fact doubling during the period covered in this audit, resulting in site visit delays. Iron Range Resources staff now have completed site visits for a majority of the projects referenced by the auditors and will complete all formal site visits by December 31, 2009.

The audit also referenced school district compliance in 9 of 15 grants made by the agency. The legislation that required Iron Range Resources to bond for school improvement funds also required the agency to provide these funds as grants to districts, thereby alleviating the need for school districts to borrow money to complete these projects. In this situation, the agency departed from its usual practice of reimbursing grant monies following submission of invoices and making site visits at certain stages of project completion, and instead advanced money to the districts which allowed them to more cost-effectively complete these projects within their fiscal and scheduling constraints. All 15 school districts have completed their projects and the agency has received final reports from each.

Iron Range Resources worked closely with the Department of Administration to help develop the new statewide grants policies and has revised agency policies and documents to align with the new statewide guidelines. In addition, the agency intends to complete all outstanding site visits by December 31, 2009.

Iron Range Resources
4261 Highway 53 South
P.O. Box 441
Eveleth, MN 55734-0441
(218) 735-3000
www.IronRangeResources.org

Person Responsible:
Brian Hiti, Deputy Commissioner, who also serves as interim Community Development Director.

Implementation Date:
December 31, 2009

Finding 2
Iron Range Resources did not always obtain certain financial information it required in its loan agreements with borrowers.

Recommendation:
Iron Range Resources should obtain and review borrowers' financial information, as required by loan agreements.

Response:
Iron Range Resources obtains financial and other information necessary to monitor and administer its loans. In both cases cited by the auditors, the agency did not have copies of the financial statements in the loan files because the information was either readily available via the internet or not germane to the situation at hand.

In one of the two cases cited by the auditors, the borrower in question was a publicly traded company. As such, the borrower's financial information for all relevant time periods was available for public review on the internet. Because of this, agency staff did not feel it was necessary to keep hard copies of the financial statements in the loan file.

In the second instance, the borrower was a public airport authority that used the proceeds of the loan to construct the shell of a speculative industrial building. The only obligation of the borrower to repay the loan was to make payments from net lease revenues (gross lease payments less costs to operate the building) generated from the property. Agency staff was aware that the building had not been leased because staff often had shown the building to prospective business tenants in its uncompleted state. Consequently, the agency believed that the financial statements of the borrower would be of minimal value until the property was occupied and generating revenue that would then be reflected in the statements. Agency staff has requested and received the financial statements of the borrower at the recommendation of the auditors.

Person Responsible:
Mathew Sjoberg, Director of Development Strategies

Implementation Date:
Completed

Finding 3
Prior Finding Partially Resolved: Iron Range Resources did not effectively restrict or monitor employee access to the state's financial systems.

Recommendations:
- The agency should eliminate incompatible employee access to the state's financial systems or develop, document, and monitor mitigating controls that provide independent scrutiny and review of the activity processed by those employees.

- The agency should periodically review employees' security profiles in its financial systems to ensure that access is limited to the profiles necessary for assigned job responsibilities.

Response:
The agency has noted that the auditors did not find any errors or irregularities resulting from employees having incompatible access to the state's accounting system.

Iron Range Resources will continue to manage incompatible access by:

- Preparing and distributing monthly reports that summarize revenues and expenditures by object class and division to the agency's budget managers and supervisors for independent review.
- Requiring electronic and/or written approval from authorized individuals for all expenditure transactions prior to encumbrance or payment.
- Performing reviews and updating the agency's Minnesota Accounting and Procurement System (MAPS) and SEMA4 procedures whenever circumstances change, such as obtaining clearance for new employees or changing/removing employee access because of changes in job responsibilities or retirements.
- Conducting an annual review of the security clearances of the agency's MAPS and SEMA4 users and certifying the appropriateness of those profiles to Minnesota Management & Budget.

To further mitigate incompatible access, Iron Range Resources will enhance its internal controls by:

- Developing a written plan documenting the mitigating controls related to incompatible access to the state's accounting system.
- Developing written procedures to assist the agency individuals responsible for reviewing monthly revenue and expenditure reports.

Person(s) Responsible:
Jean Dolensek, Administrative Services Director
Marianne Bouska, Director of Human Resources and Strategic Results

Implementation Date:
December 31, 2009

Finding 4
Prior Finding Not Resolved: Iron Range Resources did not provide an independent review of biweekly payroll transactions to ensure it accurately paid its employees.

Recommendation:
The agency should conduct an independent review of its payroll register each pay period to verify the accuracy of transactions recorded on the state's personnel and payroll system.

Response:
Iron Range Resources now regularly reviews the Payroll Register following each pay period that conforms to the SEMA4 policy on Payroll Reports (Agency Verification of Payroll and Human Resources Transactions). The review verifies that time and amounts were paid at the correct rate and that adjustments were processed. A record of the review process has been established and is retained in the Human Resources office.

Person Responsible:
Marianne Bouska, Director of Human Resources and Strategic Results

Implementation Date:
Completed

Finding 5
Iron Range Resources did not deposit or record Giants Ridge receipts in a timely manner.

Recommendations:
- The agency should daily deposit receipts exceeding $250.
- The agency should promptly record its receipts in the state's accounting system to maximize the income earned on its state treasury balances.

Response:
Immediately upon being made aware of the finding, the agency reviewed its procedures related to the Giants Ridge receipts and changes have been made to ensure timely deposit of receipts. The agency has requested and received an exemption to the deposit provisions of Minn. Stat. 16A.275 by Minnesota Management & Budget (MMB).

Going forward, the agency has further improved its receipt process by:

- Establishing a cash receipts deposit policy.
- Implementing a deposit log to monitor state statute compliance on all deposit entries in the Minnesota Accounting and Procurement System (MAPS).
- Entering deposits in MAPS on the same day the bank posts the deposit.
- Using online banking to monitor daily deposits.

Person Responsible:
Linda Johnson, Managing Director, Giants Ridge Golf & Ski Resort

Implementation Date:
Completed

Finding 6
Iron Range Resources did not have a controlled process over receipts collected at its Eveleth office, and it did not retain some key receipt records.

Recommendation:
The agency should improve controls over its handling of receipts by:
- Restricting access to the receipt lists to limit which staff can update the daily receipt lists as part of their job duties.
- Providing a frequent and ongoing reconciliation of the receipt lists to deposits.
- Retaining the receipt lists for a minimum of the current fiscal year and the three preceding fiscal years.

Response:
The agency has noted that the auditors did not find any discrepancies resulting from Iron Range Resources' receipt procedures. The agency's procedures include restrictively endorsing and logging

daily checks by front desk staff. Daily checks are photocopied, deposited at the bank and recorded in the Minnesota Accounting and Procurement System (MAPS) by accounting staff. The bank deposit slip is attached to the MAPS cash receipt entry. Daily loan payments are further verified and documented in the Access loan program by business development staff. The monthly review process, conducted by a second accounting staff member, validates that the check log, checks and bank deposit are in agreement with the MAPS entry.

Iron Range Resources has further improved controls by:

- Storing the electronic daily check logs on a limited permission directory on the agency's network.
- Printing two daily check logs. One document is now stamped "original" and initialed within the "original" stamp. The original and one copy is hand delivered with the restrictively endorsed checks to accounting.
- Reconciling all daily bank deposit slips and MAPS cash receipt entries to MAPS in accordance with Minnesota Management & Budget (MMB) operating policy 0602-03 Recording & Depositing Receipts.
- Retaining all electronic daily check logs in accordance with the Statewide Accounting Records Retention Schedule issued by MMB.

<u>Person Responsible:</u>
Jean Dolensek, Administrative Services Director

<u>Implementation Date:</u>
Completed

<u>Finding 7</u>
Iron Range Resources' controls did not include sufficient documentation to effectively monitor and demonstrate compliance with the state's travel policy.

<u>Recommendation:</u>
The agency should improve internal controls over travel-related costs by:
- Monitoring and documenting approval of lodging choices, especially when more costly options are taken.
- Reviewing supporting lodging receipts for proper rates and miscellaneous charges.
- Requiring that mileage be supported by internet distance measurements and conference agendas be provided to control meal claims.
- Comparing travel costs reimbursed to employees to those costs paid directly to the vendor or through employees' purchasing cards.
- Establishing a formal process to report and monitor employees' personal benefits earned while on state-paid travel.

<u>Response:</u>
Iron Range Resources issues regular reminders to its employees about the state's travel policies. Special attention has been given to the various policies that prohibit personal benefit from state required travel. In addition, the agency has reviewed its procedures related to travel-related payments and will supplement its internal controls by:

- Developing an agency policy and procedures for travel and employee reimbursements which will elaborate in greater detail the state's travel policies.

- Assigning the task of reconciling reimbursement claims to someone independent of the staff responsible for coordinating travel arrangements, entering purchase orders, and making vendor payments.

Person Responsible:
Jean Dolensek, Administrative Services Director

Implementation Date:
October 31, 2009

Finding 8
Iron Range Resources did not sufficiently protect certain not public data obtained from temporary workers at Giants Ridge.

Recommendation:
The agency should protect not public data collected from individuals, including social security numbers and banking data.

Response:
Iron Range Resources takes its responsibility to protect private data very seriously and in no case was non public information exposed to non employees. However, to further protect employees' private data, the agency has minimized the number of employees who have access to non public information generated as part of the employee appointment process. Employees are only granted access to parts of the appointment forms that are necessary for the employee to carry out their job duties. Completed appointment forms are delivered in sealed envelopes to the employees required to process forms. Paper timesheets no longer include a space for social security numbers. Processed forms and timesheets are stored in a locked file located in the Human Resources office.

Person Responsible:
Marianne Bouska, Director of Human Resources and Strategic Results

Implementation Date:
Completed

We appreciate your professionalism during this audit process and the opportunity provided for review and response to the audit findings and recommendations.

Sincerely,

/s/ Sandy Layman

Sandy Layman
Commissioner