



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

**Department of
Natural Resources**

Federal Compliance Audit

Year Ended June 30, 2009

March 4, 2010

Report 10-05

FINANCIAL AUDIT DIVISION
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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

March 4, 2010

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Mr. Mark Holsten, Commissioner
Minnesota Department of Natural Resources

This report presents the results of our audit to determine the status of fiscal year 2008 audit findings related to the Department of Natural Resources' federal assistance programs. In addition, we verified the accuracy of the department's Schedule of Expenditures of Federal Awards for the Fish and Wildlife Cluster for fiscal year 2009. We conducted this work as part of our 2009 audit of the state's compliance with federal program requirements. We emphasize this has not been a comprehensive audit of the department or its federal programs.

This audit was conducted by Jim Riebe, CPA, (Audit Manager) and Xin Wang, CPA, (Auditor-in-Charge).

This report is intended for the information and use of the Legislative Audit Commission and the management of the Department of Natural Resources. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 4, 2010.

We received the full cooperation of department staff while performing this audit.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Report Summary

Conclusion

The Department of Natural Resources resolved five of six fiscal year 2008 audit findings and partially resolved the other finding. However, the draft Schedule of Expenditures of Federal Awards for the Fish and Wildlife Cluster in fiscal year 2009 contained errors.

Findings

- Prior Finding Partially Resolved: The Department of Natural Resources did not fully implement its internal controls over compliance with federal program requirements. ([Finding 1, page 5](#))
- The fiscal year 2009 draft Schedule of Expenditures of Federal Awards for the Fish and Wildlife Cluster overstated expenditures by \$4.4 million. ([Finding 2, page 5](#))

Audit Objective and Scope

- The objective of our audit was to determine the status of fiscal year 2008 audit findings related to the Department of Natural Resources' federal assistance programs and to verify the accuracy of the department's Schedule of Expenditures of Federal Awards for the Fish and Wildlife Cluster for fiscal year 2009.

Department of Natural Resources

Federal Program Overview

The Department of Natural Resources spent approximately \$25 million on the Fish and Wildlife Cluster of federal programs in fiscal year 2009 as presented in Table 1.¹ Because fiscal year 2009 expenditures did not exceed the state's major federal program threshold, the program cluster was not subject to federal compliance audit requirements.² However, the scope of our fiscal year 2008 federal compliance audit did include this program cluster and identified several internal control and federal compliance weaknesses.

Table 1
Federal Fish and Wildlife Program Cluster
Administered by the Department of Natural Resources
Fiscal Year 2009

<u>CFDA¹</u>	<u>Program Name</u>	<u>Expenditures</u>
	<u>Fish and Wildlife Cluster</u>	
15.605	Sport Fish Restoration	\$14,525,633
15.611	Wildlife Restoration	<u>10,605,162</u>
	Total	<u>\$25,130,795</u>

¹The Catalog of Federal Domestic Assistance (CFDA) is a unique number assigned by the federal government to identify its programs.

Source: Schedule of Expenditures of Federal Awards.

Objective, Scope, and Methodology

The objective of our audit was to determine the status of findings identified in our fiscal year 2008 audit of the Department of Natural Resources' federal assistance programs.³ We also reviewed the accuracy of the department's Schedule of Federal Expenditures for the Fish and Wildlife Cluster for fiscal year 2009. This audit is part of our broader federal single audit objective to obtain reasonable

¹ A cluster of programs is a group of closely related programs that have similar compliance requirements and are treated as a single program.

² We defined a major federal program for the State of Minnesota in accordance with a formula prescribed by the federal Office of Management and Budget as a program or cluster of programs whose expenditures for fiscal year 2009 exceeded approximately \$30 million.

³ Office of the Legislative Auditor's Financial Audit Division Report 09-07, *Department of Natural Resources Federal Compliance Audit*, issued March 26, 2009.

assurance about whether the State of Minnesota complied with the types of compliance requirements that are applicable to each of its federal programs.⁴

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

Conclusion

The Department of Natural Resources resolved five of six fiscal year 2008 audit findings and partially resolved the other finding. However, the draft Schedule of Expenditures of Federal Awards for the Fish and Wildlife Cluster in fiscal year 2009 overstated expenditures by \$4.4 million. The following *Findings and Recommendations* section further explains these weaknesses.

We will report these findings to the federal government in the *Minnesota Financial and Compliance Report on Federally Assisted Programs for the Year Ended June 30, 2009*. That report, prepared by the Department of Management and Budget, provides the federal government with information about the state's use of federal funds and its compliance with federal program requirements. The report includes the results of our audit, conclusions on the state's internal controls over and compliance with federal programs, and findings about control and compliance weaknesses.

⁴ The State of Minnesota's single audit is an entity audit of the state that includes both the financial statements and the expenditures of federal awards by all state agencies. We issued an unqualified audit opinion, dated December 11, 2009, on the State of Minnesota's basic financial statements for the year ended June 30, 2009. In accordance with *Government Auditing Standards*, we also issued our report on the State of Minnesota's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants. (Office of the Legislative Auditor's Financial Audit Division Report 10-01, *Report on Internal Control Over Financial Reporting*, issued February 11, 2010.)

Findings and Recommendations

Prior Finding Partially Resolved: The Department of Natural Resources did not fully implement its internal controls over compliance with federal program requirements.

The department had not fully implemented the controls it had designed to address risks associated with administering federal grants. It had also not fully implemented its procedures to monitor federal financial activity and compliance. State policy requires department management to design, implement, and maintain an effective internal control system.⁵ In addition, the federal government expects management to take responsibility for effective internal controls over its financial operations and compliance with federal program requirements.

In response to findings from our 2008 audit, the department identified the risks associated with administering federal grants, designed controls to address significant risks that had been identified, partially implemented some of the controls during the year, and developed a federal fiscal monitoring procedure. The department's designed controls addressed risks associated with new applications for federal grants, accounting for federal funds and program income, the eligibility of expenditures charged to federal programs, and included a monitoring function. It is likely that the department will continue to have noncompliance and weaknesses in internal controls over compliance until it fully implements its controls over the administration of federal programs.

Recommendation

- *The Department of Natural Resources should implement and monitor controls designed to ensure compliance with federal program requirements.*

The draft Schedule of Expenditures of Federal Awards for the Fish and Wildlife Cluster overstated expenditures by \$4.4 million.

The draft federal schedule of expenditures for the Fish and Wildlife Cluster, which includes the Sport Fish Restoration Program (CFDA 15.605) and the Wildlife Restoration Program (CFDA 15.611), erroneously included as federal program expenditures \$7.4 million of state matching funds and omitted \$3 million of direct administrative expenditures. The errors resulted in a net overstatement of \$4.4 million. The departments of Natural Resources and Management and

Finding 1

⁵ Department of Management and Budget Policy 0102-01.

Finding 2

Budget shared responsibility for the accuracy of the federal schedule of expenditures. Although the departments exchanged information and several communications about the amounts reported in the schedule, misunderstandings resulted in the errors being reported and going undetected.

The state includes the department's Schedule of Expenditures of Federal Awards in its annual federal compliance report to the federal government. The state has a duty to ensure that the report provides accurate financial information for its federal program expenditures.

Recommendation

- *The departments of Natural Resources and Management and Budget should ensure the accuracy of the amounts reported in the Schedule of Expenditures of Federal Awards.*

Minnesota Department of Natural Resources

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Office of the Commissioner

651-259-5555



March 1, 2010

Jim Riebe
Office of The Legislative Auditor
Room 140 Centennial Building
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St. Paul, MN 55155-1603

Dear Mr. Riebe,

Our response to the findings in your prior audit of the Department of Natural Resources' (DNR) federal assistance program for fiscal year 2008 and the finding identified through the review of the Fish and Wildlife Cluster for fiscal year 2009 is provided below.

Finding 1: Prior Finding Partially Resolved: The Department of Natural Resources did not fully implement its internal controls over compliance with federal program requirements.

Recommendation: The DNR should implement and monitor controls designed to ensure compliance with federal program requirements.

Response: The DNR agrees with the finding. The Fish and Wildlife Division prepared a risk assessment, and initiated changes to its control procedures, after receiving the audit report on May 29, 2009. The Federal Aid Coordinator in the Office of Management and Budget Services will be responsible for ensuring the monitoring procedures are followed, and for implementing controls over the administration of federal programs.

Internal Audit will continue to report on the status of controls implemented by the Fish and Wildlife Division on a monthly basis until the recommendation is fully implemented.

Finding 2: The draft Schedule of Expenditures of Federal Awards for the Fish and Wildlife Cluster overstated expenditures by \$4.4 million.

Recommendation: The DNR and Minnesota Management and Budget should ensure the accuracy of the amounts reported in the Schedule of Expenditures of Federal Awards.

Response: Resolved. The DNR accepts the finding that an error occurred on the Sport Fish and Wildlife Restoration Program, which resulted in the inclusion of \$7.4 million of state matching funds and the omission of \$3 million in direct administrative expenditures.

In the Fall of 2008 the DNR worked with MMB to develop a format to submit this information that adjusted for state match and department administrative costs at the end of the spreadsheet. The DNR submitted the 2008 federal single audit information this manner. The DNR prepared and submitted the 2009 information in the same agreed upon format. However, the wrong information was pulled from the DNR spreadsheet when compiling the state-wide report and the DNR did not identify the error.

The DNR will more closely review the final version of the federal single audit.

If you have additional questions regarding our response to your recent review, please contact Denise Anderson, Chief Financial Officer.

Sincerely,



Commissioner Mark Holsten
Minnesota Department of Natural Resources
St. Paul, MN 55155

Cc: Laurie Martinson
Denise Anderson,
André Prahl
Ken Vandemeer