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OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

Department of Natural Resources

Internal Controls and Compliance Audit

July 2010 through February 2013

April 17, 2014 **Report 14-13**

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OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA • James Nobles, Legislative Auditor

April 17, 2014

Senator Roger Reinert, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Tom Landwehr, Commissioner
Department of Natural Resources

This report presents the results of our internal controls and compliance audit of selected financial activities of the Department of Natural Resources for the period July 1, 2010, through February 28, 2013.

We discussed the results of the audit with staff from the Department of Natural Resources on April 8, 2014. This audit was conducted by Brad White, CPA, CISA, CFE (Audit Manager) and Joan Haskin, CPA, CISA (Auditor-in-Charge), assisted by auditors Jordan Bjonfald, CPA, Reidar Gullicksrud, CPA, Leah Miller, Tracia Polden, and Valentina Stone.

We received the full cooperation of staff from the Department of Natural Resources while performing this audit.

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The Department of Natural Resources generally had adequate internal controls over the financial areas we reviewed. However, the department's internal controls were not adequate to ensure the accuracy of payroll transactions and ensure that payroll costs charged to dedicated funds and accounts corresponded to the work the employees performed.

For the items we tested, the department generally complied with significant finance-related legal requirements contained in statutes, laws, rules, and policies. However, we found some instances of noncompliance.

Key Findings

- The Department of Natural Resources did not adequately verify the accuracy of hours worked and allocation of payroll costs for employees that did not complete their own timesheets and direct supervisors that did not approve their hours in the state's automated time reporting system. In addition, the department did not review a key payroll system report to ensure the overall accuracy of payments to employees. This is a repeat finding.[1] (Finding 1, page 13)

- The Department of Natural Resources did not always document its reasons for making payroll adjustments that moved costs between dedicated accounts. (Finding 2, page 16)

- The Department of Natural Resources did not adequately mitigate the risk created by employees with incompatible access to the state's accounting system. (Finding 3, page 18)

- The Department of Natural Resources did not comply with certain state grant policies and department guidelines for grants paid from the Outdoor Heritage Fund and the Environment and Natural Resources Trust Fund. (Finding 4, page 19)

[1] Office of the Legislative Auditor's Financial Audit Division Report 09-02, *Department of Natural Resources*, issued January 15, 2009, Finding 11.

Audit Objectives and Scope

Objectives

- Internal controls
- Compliance

Period Audited

July 1, 2010, through February 28, 2013

Selected Audit Areas

- System security access
- Payroll and travel expenditures
- Dedicated accounts
- Internal cost allocations
- Outdoor Heritage Fund grants
- Environment and Natural Resources Trust Fund grants
- Permanent School Fund

Department of Natural Resources

Agency Overview

The Department of Natural Resources states that its mission is to conserve and manage the state's natural resources, provide outdoor recreation opportunities, and provide for commercial uses of natural resources in a way that creates a sustainable quality of life. Governor Mark Dayton appointed Tom Landwehr as commissioner of the department in January 2011. The department operates pursuant to *Minnesota Statutes* 2013, Chapter 84, and is currently organized into the following seven divisions, with each division having separate directors and financial accounting staff:

- Lands and Minerals
- Ecological and Water Resources
- Forestry
- Parks and Trails
- Fish and Wildlife
- Enforcement
- Operations Services

While primary financial operations are centralized in Saint Paul, the department has regional district offices geographically spread throughout the state. The regional district offices have personnel representing the department’s various divisions and a regional director to coordinate the department’s efforts throughout the region.

The department’s activities are primarily funded by legislative appropriations, federal grants, and user fees appropriated to the agency. The legislative appropriations and federal funding provide resources for operating programs and grants. *Minnesota Statutes* further establish a large number of accounts funded with user fee revenues that are dedicated for the specific account purpose. The Legislature appropriates the level of spending from dedicated accounts in the Game and Fish and Natural Resources funds based on estimated user fee receipts. The department segregates the financial activities of these accounts in the state’s accounting system so that each account is managed within its available resources.

Table 1 summarizes the Department of Natural Resources’ spending by fund for fiscal years 2011, 2012, and 2013.

Table 1
Department of Natural Resources
Expenditures by Fund
Fiscal Years 2011, 2012, and 2013[1]

Fund Name	2011	2012	2013
Game and Fish	$ 94,793,906	$ 89,069,129	$ 98,050,226
Natural Resources	71,962,852	81,468,847	85,787,998
Other Miscellaneous Special Revenue[2]	78,175,264	80,013,325	104,667,148
General	87,017,707	73,667,441	84,998,203
Bond Proceeds	55,724,470	68,425,183	45,317,179
Building Construction-Bonded	33,511,358	27,190,788	28,120,379
Legacy – Outdoor Heritage	36,737,251	35,474,754	55,194,783
Legacy – Parks and Trails	12,583,851	19,014,606	15,408,344
Legacy – Clean Water	7,947,116	8,404,384	8,686,351
Environmental and Natural Resources	9,891,845	17,263,594	16,562,633
Federal[3]	22,975,115	13,683,823	12,423,580
Other[4]	20,316,076	23,428,491	18,743,470
Total	$531,636,811	$537,104,365	$573,960,294

[1] Our audit of fiscal year 2013 was limited to financial activity through February 2013.

[2] The department used its Other Miscellaneous Special Revenue Fund to initially pay for certain central office services (including services related to management and budget services, communication and outreach, facilities, management information systems, materials management, fleet, safety, and human resources). The department billed the divisions for these costs using a variety of indices that allocated the costs based on each division's proportionate use of the services. Starting in fiscal year 2012, the department also billed the divisions for a share of the department's leadership costs. The divisions reimbursed the central office for these allocated central services and leadership costs from their various dedicated funds. In the above table, we have not eliminated these internal cost allocations and payments. As a result, these costs (which ranged from $37 million to $40 million annually) are double counted in the table, once as they were initially paid and again as the divisions reimbursed the central office for their share of the costs. See Appendix C for more detail about the department's internal cost allocations.

[3] In addition to the federal grants administered through the state's Federal Fund, the Game and Fish Fund's expenditures included two federal programs (Sport Fish Restoration Act and Wildlife Restoration Act) which totaled $23 million and $26 million in fiscal years 2012 and 2013, respectively. No department federal programs were major programs examined for fiscal years 2012 or 2013 for the State of Minnesota federal Single Audit by the Office of the Legislative Auditor. Major federal programs were defined as those with expenditures exceeding $30 million.

[4] Other includes twelve special revenue, agency, and gift funds.

Source: State of Minnesota's accounting system.

Table 2 summarizes the department's expenditures by type for fiscal years 2011, 2012, and 2013.

Table 2
Department of Natural Resources
Expenditures by Type
Fiscal Years 2011, 2012, and 2013[1]

Expenditures	2011	2012	2013
Payroll[2]	$192,461,272	$185,764,989	$200,208,121
Grants[3]	87,787,930	125,977,121	108,057,774
Agency Cost Allocations and Indirect Costs[4]	35,343,472	34,323,362	45,953,455
Purchased Services	32,218,544	30,848,679	33,222,934
Travel[5]	18,005,154	23,789,745	20,953,513
Supplies	24,598,984	19,969,238	27,010,523
Equipment	16,446,089	14,519,596	17,667,636
Land	50,620,935	19,574,178	18,925,547
Building/Capital Improvements	20,513,825	17,902,995	25,203,040
Other Expenditures[6]	53,640,606	64,434,462	76,757,751
Total	$531,636,811	$537,104,365	$573,960,294

[1] Our audit of fiscal year 2013 was limited to financial activity through February 2013.

[2] Payroll expenses for fiscal year 2012 were lower due to the government shutdown, and for fiscal year 2013 were higher due to annual cost of living and performance increases ratified in employee contracts and the managerial and commissioner's plans.

[3] Because appropriations for grants and capital improvement can be available long-term, or until expended, expenditure fluctuations can occur between fiscal years.

[4] The department initially paid for certain shared services (including services related to management and budget services, communication and outreach, facilities, management information systems, materials management, fleet, safety, and human resources). The department billed the divisions for the cost of services provided centrally using a variety of indices that allocated the costs based on each division's proportionate use of the central services, and billed for other costs, such as office space and use of vehicles and equipment, based on actual direct usage. Starting in fiscal year 2012, the department also billed the divisions for a share of the department's leadership costs. The divisions reimbursed the central office for these allocated central services and leadership costs from their various dedicated funds. In the above table, we have not eliminated these internal billings and payments. As a result, these costs are double counted in the table, once based on the initial type of expenditure (payroll, travel, supplies and equipment) and again as Agency Cost Allocations and Indirect Cost or in Travel when divisions reimbursed the central office for their share of the costs. See Appendix C for more detail about the department's internal cost allocations.

[5] Because the department's operations and programs are geographically dispersed throughout the state, employees incur a substantial amount of travel-related expenses, such as mileage, meals and lodging. However, the department miscoded about $3.6 million of fiscal year 2012 specialized aircraft and helicopter services as out of state travel, as reporting in Finding 7.

[6] Other Expenditures included various services, space rental, communications, employee development, and other operating costs.

Source: State of Minnesota's accounting system.

Dedicated Funds

The department used money from numerous dedicated funds and accounts. Following are descriptions of the larger dedicated funds. See Appendices A and B for summarized financial information about some of these funds, as noted.

Game and Fish Fund. The Legislature appropriates money to the department from the Game and Fish Fund and its related accounts based on the department's anticipated receipts. Statutes dedicate a variety of fees for the purpose of protecting, preserving, and improving the state's wildlife resources and habitats. Game and Fish Fund receipts come from hunting and fishing licenses, stamps and permits, wildlife surcharges, license application and issuing fees, timber sales on wildlife conservation lands, interest earnings, and receipts from the federal sport fish and wildlife restoration programs. In addition to these receipts, the Game and Fish Fund receives money from in-lieu-of-sales-tax on lottery tickets.[2] Appendix A summarizes the Game and Fish Fund receipts by type (Table A-1) and fund/account (Table A-2) for fiscal years 2012 and 2013.

The Legislature appropriated money from the Game and Fish Fund for general game and fish operations and specific dedicated wildlife or habitat purposes. Appendix A shows Game and Fish Fund expenditures by type (Table A-3) and account (Table A-4) for fiscal years 2012 and 2013.

Natural Resources Fund. The Legislature appropriated to the department money from the Natural Resources Fund and its related accounts based on anticipated receipts from fees, money from in-lieu-of-sales-tax on lottery tickets[1], and gas tax transfers from the Department of Revenue.[3] Natural Resources Fund receipts come from a wide variety of sources, such as registration of recreational vehicles, sale of timber harvested on state land, iron ore rents and royalties from state

[2] *Minnesota Statutes* 2013, 297A.65, requires the Minnesota State Lottery to submit a 6.5 percent payment in-lieu-of-sales-tax on lottery tickets to the Department of Revenue based on the sales tax rate imposed by *Minnesota Statutes* 2013, 297A.62. As required by *Minnesota Statutes* 2013, 297A.94 (a), the Department of Revenue deposits 27.57% into the General Fund and, pursuant to *Minnesota Statutes* 2013, 297A.94 (e), deposits 72.43% into funds managed by the Department of Natural Resources (50% to the Game and Fish Fund and the rest to various accounts in the Natural Resources Fund, including 22.5% for state parks and trails, 22.5% for metropolitan parks and trails, 3% for local trail grants, and 2% to the three zoos). These receipts are used to fund legislative appropriations from those accounts.

[3] Pursuant to *Minnesota Statutes* 2013, 296A.18, the Department of Revenue transfers a portion of the state's gas tax estimated to be related to the gas used to operate boats, snowmobiles, and all-terrain vehicles. The Department of Revenue transfers approximately 3.1% of the tax to several accounts in the Natural Resources Fund, including 1.5% into the water recreation account, 1% to the snowmobile account, 0.27% to the all-terrain vehicle account, 0.046% to the off highway motorcycle account, 0.164% to the off road vehicle account, and 0.116% to the Special Revenue Fund for maintenance of state forest roads (including 0.0555% transferred to counties for maintenance of county forest roads).

minerals leases, state park camping fees and permits, sale of park merchandise, snowmobile trail permits, and various surcharges and fees. Appendix B summarizes the Natural Resources receipts by account (Table B-1) and expenditures by account (Table B-2) for fiscal years 2012 and 2013.

Environmental and Natural Resources Trust Fund. The Environmental and Natural Resources Trust Fund receives money from state lottery proceeds which is used to fund projects appropriated by the Legislature. The Minnesota Constitution provides up to 5.5 percent of the market value of the trust fund for environmental projects "*for the public purpose of protection, conservation, preservation, and enhancement of the state's air, water, land, fish, wildlife, and other natural resources*" and further provides that "*not less than 40 percent of the net proceeds from any state-operated lottery must be credited to the fund…*"[4] The Legislative-Citizen Commission on Minnesota Resources makes funding recommendations to the Legislature for environment and natural resource projects, and, based on those recommendations, the Legislature appropriates money from the Environmental and Natural Resources Trust Fund to the department for those projects. The department typically used about 70 percent of the appropriations for land, payroll, and other project costs, and about 30 percent to provide grants for project purposes.

Legacy Funds. The Legacy Funds received money through an increase in the state's sales tax authorized in 2008 by the passage of a constitutional amendment.[5] The amendment restricted the use of the additional sales tax for the following purposes: to restore, protect, and enhance wetlands, prairies, forests, and habitat for fish, game, and wildlife (Outdoor Heritage Fund), to protect, enhance, and restore water quality in lakes, rivers, and streams and to protect groundwater from degradation (Clean Water Fund), to support parks and trails of regional or statewide significance (Parks and Trails Fund); and for arts, arts education, and arts access and to preserve Minnesota's history and cultural heritage (Arts and Cultural Heritage Fund.) The Legislature appropriated money to the department from the Outdoor Heritage, Clean Water, and Parks and Trails funds. Projects from the Outdoor Heritage Fund are recommended for legislative approval by the Lessard-Sams Outdoor Heritage Council based on approved accomplishment plans. The department used the appropriations for payroll and other project costs, land, and to provide grants, primarily to nonprofit organizations.

Permanent School Fund. The department also managed school trust land granted to the state by the federal government. The Minnesota Constitution established the Permanent School Trust to ensure a long term source of money for public schools.[6] The principal of the Permanent School Fund, totaling about

[4] Minnesota Constitution, Article XI, section 14.

[5] Minnesota Constitution, Article XI, section 15.

[6] Minnesota Constitution, Article XI, section 8.

$980 million on June 30, 2013, consists of money generated from the sale or use of trust land. Income is primarily earned from land and timber sales, land leases, and mineral royalties. Timber sale revenue for fiscal years 2011, 2012, and 2013 (through February 2013) totaled $9.1 million, $7.7 million, and $4.8 million, respectively. Iron ore rent and royalty revenue for fiscal years 2011, 2012, and 2013 (through February 2013) generated $16.7 million, $26.1 million, and $17.9 million, respectively. The State Board of Investment is responsible for investing the trust's principal and determining interest and dividend earnings for distribution to school districts each year.

Internal Cost Allocations

The Department of Natural Resources allocated management leadership and shared services costs to its operating divisions. Shared services are the department's centralized business services and include budget and financial, communications and outreach, facilities management, information technology, procurement, vehicles, safety, and human resources services. The department stated that it centralized these services to help it "accomplish its natural resources mission and to meet the needs of department employees in a responsive and efficient manner."[7] The divisions then distributed those expenses to funds and accounts within the division.

The department's shared services structure started in about 2006. In 2011, the department establishment the Operations Services Division to provide a foundation to integrate shared services agency-wide. In 2012 the department formalized its shared services process through a commissioner's order that spelled out the roles and responsibilities of management and staff, and explained why shared services were important to the department's future.[8] It created a Shared Services Governance Board and a governance framework including advisory groups, staff liaisons, service providers, and senior managers to provide a structure for financial management and business operations, decision-making, delivery, reporting and evaluation of services, and internal controls.

Shared services operate through service level agreements between the service providers and the commissioner. The agreements summarize the authorities delegated to the service providers by the commissioner and describe the financial and service relationships between service providers and department's divisions. The department designed its shared services financial management structure on a fee-for-service basis, administered through the service level agreements. The complex financial and operating environment of the department is considered when determining service indices and rates. Department leadership establishes rates and fees that recover the costs of providing the services. The divisions

[7] http://files.dnr.state.mn.us/aboutdnr/shared-services/2014-outcomes.pdf.
[8] Department of Natural Resources, Operational Order #122, *Shared Services Governance Framework.*

completed an annual certification identifying the accounts to which they planned to charge the shared services costs. The department's Office of Management Budget Services reviewed and authorized those plans.

In 2014, the department published a summary and financial overview of its shared services for fiscal years 2012 through 2013.[9]

Starting in January 2012, the department began to allocate management leadership costs to divisions and its dedicated accounts. The department based its allocations on percentages derived from each division's use of fiscal services and human resources services. The department allocated leadership costs totaling $634,000 for the second half of fiscal year 2012 and $2,477,000 for fiscal year 2013.

In addition, the department directly billed divisions for certain types of goods and services they used, such as fleet vehicles and equipment, computer and office equipment, telecommunications, and radio maintenance. The department also directly billed for some professional services related to environmental reviews, grant agreements, land acquisitions, architectural design, and engineering. The commissioner approved the hourly rates used to bill for these professional services.

Appendix C shows the shared services areas, methods, and amounts allocated during fiscal years 2011, 2012, and 2013.

Scope, Objective, and Methodology

Our selected scope audit of the Department of Natural Resources included a review of employees' security access to the state's financial systems; department wide payroll and travel expenditures; internal cost allocations; dedicated receipts and expenditures; the Permanent School Fund; and grants paid from the Outdoors Heritage Fund and Environment and Natural Resources Trust Fund. We examined financial activity primarily for the period from July 2010, through February 2013. The objective of our audit was to answer the following questions:

- Did the department's internal controls provide reasonable assurance that it used money from appropriated and dedicated account fees for the intended purposes; had reasonable methods to allocate and distribute internal shared services costs; accurately paid employees, vendors, and grantees in accordance with management's authorization and in compliance with finance-related legal requirements; and created reliable financial information?

[9] http://files.dnr.state.mn.us/aboutdnr/shared-services/2014-outcomes.pdf.

- Did the department's internal controls provide reasonable assurance that it safeguarded resources and accurately accounted for fees deposited into its dedicated accounts, and the Permanent School Fund?

- For items tested, did the department comply with significant finance-related legal requirements and use dedicated funds and accounts in compliance with the legal purposes contained in the state constitution, statutes, laws, rules, and policies, as applicable?

- Did the department resolve prior audit findings related to areas included in the scope of the audit?[10]

To meet the audit objectives, we 1) gained an understanding of the department's financial policies and procedures; 2) considered the risk of errors in the accounting records and potential noncompliance with relevant legal requirements; 3) analyzed accounting data to identify unusual trends or significant changes in financial operations; and 4) examined samples of financial transactions and reviewed supporting documentation to test whether the office's controls were effective and if the transactions complied with laws, regulations, policies, and grant and contract provisions.

We focused on the revenues and expenditures for the numerous accounts that the department managed to ensure revenues were accurate and complete and that it allocated costs in relation to the accounts' obligation to bear those costs. More specifically, our audit included the following steps:

- We reviewed the revenue reconciliations between the department's subsystems and the state's accounting system to determine whether receipts were deposited into the correct accounts. We also verified whether external vendor fees for using the electronic licensing system were properly allocated in compliance with state statutes and the commissioner's orders.

- We analyzed dedicated account expenditures to identify unusual trends or significant changes in financial operations. We determined whether employee payroll and other project expenditures were reasonably charged to the appropriate fund and account and supported the legal purpose of the fund.

- We reviewed internal cost allocations to determine whether the methodologies agreed with service level agreements and resulted in allocations that corresponded to the services used or benefits received by the divisions. We examined how divisions distributed those costs to funds

[10] Office of the Legislative Auditor's Financial Audit Division Report 09-02, *Department of Natural Resources*, issued January 15, 2009.

and accounts and compared those distributions to the divisions' planned allocation percentages certified to the department's Office of Management and Budget Services.

- We selected a sample of Permanent School Fund mining and timber sales receipts and reviewed supporting evidence to test effectiveness of controls and compliance with statutes and policies. We tested the Permanent School Fund forestry expense certification for accuracy and compliance with state statute.

- We analyzed and tested Outdoor Heritage Fund and Environment and Natural Resources Trust fund grants to assess whether costs were based on an approved accomplishment plan and/or appropriation laws and to determine whether grant oversight and monitoring controls were effective and in compliance with statutes and the state's Office of Grants Management policies.

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.

We used the guidance contained in the *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate the department's internal controls.[11] We used state and federal laws, regulations, and contracts, as well as policies and procedures established by the departments of Management and Budget and Administration and the department's internal policies and procedures as evaluation criteria over compliance.

Conclusion

The Department of Natural Resources generally had adequate internal controls over the financial areas we reviewed. However, the department's internal controls were not adequate to ensure the accuracy of payroll transactions and ensure that payroll costs charged to dedicated funds and accounts corresponded to the work the employees performed.

[11] 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.

For the items we tested, the department generally complied with significant finance-related legal requirements contained in statutes, laws, rules, and policies. However, we found some instances of noncompliance.

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

Findings and Recommendations

Finding 1

The Department of Natural Resources did not adequately verify the accuracy of hours worked and allocation of payroll costs for employees that did not complete their own timesheets and direct supervisors that did not approve their hours in the state's automated time reporting system. In addition, the department did not review a key payroll system report to ensure the overall accuracy of payments to employees. This is a repeat finding.[12]

The department did not review some key payroll system reports to ensure the accuracy and authorization of payments to employees, as required by state policies. Department employees used the state's automated self service time entry system to enter and authorize payroll hours. Payroll hours entered by employees and authorized by approvers through the self service time entry system are uploaded into the state's payroll system. Payroll staff then enter any payroll adjustments, and accounts payable staff enter business expense reimbursements for processing payments to employees.

The state's self service time entry policy[13] has several provisions to ensure the integrity of payroll hours reported through the self service time entry system, including the following:

- The best control over the integrity of employees' payroll information is achieved when employees prepare their own timesheets and supervisors, who have direct knowledge of employees' work, review and approve timesheets.

- Employees are responsible for completing and modifying their timesheets. Employees are responsible for preparing their timesheets prior to a planned absence that includes the pay period end date.

- Supervisors/managers are responsible for reviewing and approving employee timesheets. The supervisor or manager who is designated as the primary approver should be the most knowledgeable about the work schedule of the employee. Primary approvers are responsible for approving employee timesheets. If errors are found on a timesheet, the employee (not the supervisor/manager) should make the necessary changes.

[12] Office of the Legislative Auditor's Financial Audit Division Report 09-02, *Department of Natural Resources*, issued January 15, 2009, Finding 11.

[13] Department of Management and Budget Policy PAY0017, *Self Service Time Entry*.

- Use of backup approvers and payroll staff to modify or approve employee timesheets is permitted, but should be strictly limited. When backup approvers and payroll staff modify or approve timesheets, they should document the reason for the modification or approval on the Comments page and notify the primary supervisor/manager to ensure that the timesheet modification or approval was appropriate.

- Employees should not approve their own timesheets.

To help monitor compliance with these requirements, the payroll system produces the self service time entry audit report each pay period. This report provides a list of employees whose self service time entry information was entered and approved, but the employee did not personally complete their time entry, and/or the approval was not entered by the primary approver. The self service time entry policy[14] requires payroll staff to complete a comprehensive review of the report each pay period, and states, "If a comprehensive review is not possible, review a representative sample each pay period. A comprehensive review must be completed on a quarterly basis. Audited sections or samples from the report must be kept with documented explanations." In addition, referring to instances when the employee did not complete their time entry, and/or the approval was not entered by the primary approver, the policy states, "Although permitted, this activity should be minimal and non-repetitive regarding a particular employee or primary approver. Agency management should be notified of on-going problems or patterns of difficulty and take steps to minimize occurrences."

The department payroll staff told us they review the self service time entry audit reports on a sample basis each pay period and conduct a full review each quarter; however, they did not document these reviews. Because these reports identify instances when employees or approvers strayed from the internal controls in the self service time entry system, we obtained and analyzed the department's self service time reporting data for the thirteen payroll periods from July 2012 through December 2012. Our analysis identified the following weaknesses in the department's oversight of the self service time entry and payroll process:

- Approximately 23 percent (8,660 of 37,831) of employee timesheets were not completed by the employees. Based on comments in the data, approvers usually stated they completed or corrected employee timesheets to change the fund or account to which the employee charged their time. However, the comments did not usually provide detail about the approvers' changes. The prevalence of approvers completing employee's timesheets undermines the fundamental integrity of the self service time entry system since employees are best able to accurately identify the work they perform each day.

[14] Department of Management and Budget Policy PAY0017, *Self Service Time Entry.*

- Approximately 12 percent (4,642 of 37,831) of employees' timesheets were approved by backup approvers rather than primary approvers. Comments made by back-up approvers did not always explain why they substituted for the primary approver. Payroll staff did not have evidence to show that they notified the primary approver to ensure that the timesheet modification or approval was appropriate, although they told us they periodically reminded backup approvers to document explanations about why they approved timesheets. The prevalence of reliance on backup approvers indicates that the department has an on-going, repetitive problem that undermines the fundamental integrity of the self service time entry system by not having supervisors with direct knowledge of employees' work approve timesheets.

- Two employees could authorize their own timesheets in the self service time entry system, although we saw no instances when they did. The department established them as back up approvers in the self service time entry system for their divisions, which created the ability for them to authorize their own time.

In addition, the department payroll staff told us they did not review another payroll system report, the payroll register. The payroll register identifies payroll and expense reimbursement data used in processing employee paychecks each pay period. State policy requires the agency to review the payroll register to ensure the accuracy of payroll and human resources transactions.[15] The department's review of the payroll register would verify that salary increases, special payments, earnings codes, hours, pay rates, salary amounts, lump-sum or retroactive payments, and employee expense reimbursements are accurate and authorized. By reviewing the payroll register report, payroll staff could have detected that a data entry error resulted in a $14,744 expense reimbursement to an employee instead of $147.44. The employee detected the error and repaid the department.

Recommendations

- *The Department of Natural Resources should document its review of the self service time entry audit report to show that the review was sufficient to ensure the accuracy and authorization of hours worked and leave taken.*

- *The Department of Natural Resources should strengthen the integrity of its payroll transactions by reducing the volume of, 1) timesheets not completed by employees, and 2) timesheets approved by backup approvers.*

[15] Department of Management and Budget Policy PAY0028, *Agency Verification of Payroll and Human Resources Transactions.*

- *The Department of Natural Resources should not allow employees the ability to approve their own timesheets.*

- *The Department of Natural Resources should review the payroll register report to verify the accuracy of payroll data used in processing employee paychecks and retain evidence of the review.*

Finding 2

The Department of Natural Resources did not always document its reasons for making payroll adjustments that moved costs between dedicated accounts.

The department did not always document why it adjusted some payroll transactions to transfer the expense to another account or fund. Because payroll adjustments could undermine the integrity of funding decisions made by management or employees,[16] the state policy for payroll expense transfers requires, "Agencies must document the rationale for any expense transfers that are processed."[17] For fiscal years 2012 and 2013 (through February 2013), the department used payroll expense transfers totaling $16.5 million to adjust payroll transactions, including payroll expense transfers totaling $8.5 million that adjusted payroll transactions in dedicated funds and accounts.

For 7 of the 12 payroll expense transfers we tested, division staff had not documented the reasons for the transfers. Often the payroll expense transfers moved employees' payroll costs for several pay periods to different funding. Division staff told us they often initiated the adjustments when their periodic reviews of budget-to-actual payroll expenses for the dedicated funds and accounts showed 1) some funds had available balances, and 2) some payroll costs charged to other funds could qualify as allowable uses of the available balances. However, without documentation in the payroll records supporting the reason for each adjustment, the department could not show how the expense transfers of payroll costs complied with the purposes of the dedicated fund's or account's appropriation and were consistent with the employee's actual work.

Table 3 shows examples of 3 adjustments that moved payroll costs between dedicated accounts. The department did not have a documented reason to support why the adjustments were necessary or how each specific employee's actual duties (for that time period) qualified as an allowable payroll cost for the account being charged.

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[16] For some employees, management has programmed a default funding allocation into the accounting system. For other employees, management provided instructions to the employee for coding their time to different accounts based on the actual project work they performed.

[17] Department of Management and Budget Policy PAY0029, *Mass Expense Transfers.*

Table 3
Department of Natural Resources
Examples of Payroll Expense Transfers Between Dedicated Funds/Accounts
Without Documented Explanations

Payroll Expenses Transferred: From Fund/Account	To Fund/Account	Hours Transferred	Costs Transferred
Game and Fish Operations	Deer Habitat Improvement	1,102	$54,629
(Adjustments for period from August 2011 – March 2012)			
Game and Fish Operations	Wildlife Acquisition Surcharge	685	$22,698
	Deer Habitat Improvement	124	$ 4,170
(Adjustments for period from July 2012 – January 2013)			
Game and Fish Operations	Computerized License Deer/Bear Management	761	$21,203
	Wildlife Acquisition Surcharge	73	$ 2,045
(Adjustments for period from July 2012 – January 2013)			

Source: Auditor created from payroll adjustment transactions recorded in the state's payroll system.

In addition, the volume of the expense transfers may indicate that the department has not adequately established controls to ensure that it charges payroll costs to an appropriate account at the time the employee does the work. According to the state policy:

> The mass expense transfer transaction is designed to correct a one-time funding problem. It is not intended as a means to correct a recurring problem. Agencies must make every effort to ensure that all position funding records reflect as accurately as possible each position's intended funding.

Recommendations

- *The department should ensure that divisions have documented the rationale for payroll expense corrections.*
- *The department should determine whether it needs additional controls to ensure it charges payroll costs to an appropriate account at the time the employee does the work, rather than rely on payroll expense transfers to fix recurring funding problems.*

Finding 3

The Department of Natural Resources did not adequately mitigate the risk created by employees with incompatible access to the state's accounting system.

As of September 2013, the department did not have effective internal controls to mitigate the risk created by having hundreds of employees with incompatible security role combinations for the state's accounting system. The Department of Management and Budget identified the combinations of accounting system security roles that allowed employees to have incompatible access. These incompatible role combinations increase the risk of error or fraud because they allow an employee too much ability to control a financial transaction.

State policy requires agencies to implement and maintain internal controls to mitigate the risk created when employees need incompatible security roles to perform their job duties.[18] For example, if an employee had incompatible security role combinations that allowed the creation of purchase orders and the receipt of goods, an independent review of purchases initiated by this employee and periodic verification of the goods purchased would help to mitigate the risk that the employee exploited the incompatible access for personal use or gain.

The department took some good first-steps toward mitigating employees' incompatible security roles. It analyzed the incompatible security role combinations to better understand the risks the combinations created. For the incompatibilities they identified as highest risk, the department's security staff worked with the Department of Management and Budget to design accounting system reports that would allow for review of transactions processed by employees with that access. Since September 2013, the department had begun monitoring the activity of over 160 employees with high risk incompatible access and developed an approach for reviewing financial activity they posted. However, it had not taken steps to mitigate the risk for transactions posted by other employees assigned with incompatible access the department viewed as a moderate or lower risk.

Recommendation

- *The Department of Natural Resources should develop, document, implement, and monitor internal controls to mitigate the risk created by employees' incompatible access to the state's accounting system.*

[18] Department of Management and Budget Policy No. 1101-07, *Security and Access*.

The Department of Natural Resources did not comply with certain state grant policies and department guidelines for grants paid from the Outdoor Heritage Fund and the Environment and Natural Resources Trust Fund.

Finding 4

The department did not always monitor grantee compliance with statutory requirements and state grant provisions as required by the state's grant management policies. The department had the following grant oversight weaknesses:

- The department did not conduct required site monitoring visits of any recipient of grants from the Outdoor Heritage Fund or Environment and Natural Resources Trust Fund. From fiscal year 2011 through 2013, these grants totaled $79 million. State grants policy requires at least one monitoring visit during the grant period for grants that exceed $50,000 and annual monitoring visits on grants that exceed $250,000.[19] About 26 percent of the department's Outdoor Heritage Fund and Environment and Natural Resources Trust Fund grants, (totaling about $7.2 million) were from $50,000 to $250,000; about 17 percent (totaling about $69.6 million) exceeded $250,000. The state policy requires site visits to ensure grantees use money in accordance with the terms of the grant agreement and the purpose of the appropriations.

  However, for the department's large grants that involve land acquisitions, the department monitored grantees' appropriate use of the grant money in other ways. For example, the department received legal documents related to the land acquisition, such as a copy of the title. The department's other oversight for these types of grants may be sufficient and lessen the need for the grantee site visits. The state's Office of Grants Management can authorize other oversight procedures as alternatives to the requirements of its state grants management policies.

- Some Outdoor Heritage Fund grantees did not submit certain evidence and documentation related to land acquisitions within the timelines required by the department's guidelines and the grant agreements. For the grants we tested, five of eight grantees did not submit a bank confirmation of the amount paid for the land within ten days of closing the real estate transaction; and, two of ten grantees did not provide a settlement statement within ten days after the closing date. Department land acquisition guidelines state that the grantee must submit a bank confirmation of the amount paid within ten days after the land acquisition closing, and must provide a settlement statement within ten days of the closing.[20] These documents provide the department with assurance that the grantee and its bank made the monetary transfers based on the financial terms of the land purchase.

[19] Department of Administration, Office of Grants Management Policy 08-10.

[20] Department of Natural Resources, Land Acquisition Guidelines for pass-through grants.

In addition, the department did not receive timely evidence that one grantee recorded a notice of funding restriction for a $2.6 million Outdoor Heritage Fund grant for land acquisition. The department's land acquisition guidelines and the grant agreement specified the notice was due no later than 60 days after the closing date,[21] but the department did not receive it until six months later. State statute requires the recording of a "notice of funding restrictions in the appropriate local government office where the conveyance of the interest in real property is filed."[22] The statute requires the notice to include a legal description of the property, a reference to the underlying funding agreement, a reference to the statute, and the following statement:

> This interest in real property shall be administered in accordance with the terms, conditions, and purposes of the grant agreement controlling the acquisition of the property. The interest in real property, or any portion of the interest in real property, shall not be sold, transferred, pledged, or otherwise disposed of or further encumbered without obtaining the prior written approval of the Lessard-Sams Outdoor Heritage Council or its successor. The ownership of the interest in real property transfers to the state if: (1) the holder of the interest in real property fails to comply with the terms and conditions of the grant agreement or accomplishment plan; or (2) restrictions are placed on the land that preclude its use for the intended purpose as specified in the appropriation.

Recommendations

- *The Department of Natural Resources should conduct grantee site monitoring visits, as required by state grants management policies, or obtain approval from the Department of Administration for other oversight procedures.*

- *The Department of Natural Resources should ensure that grantees submit all required evidence and documentation to support grants for land acquisitions.*

[21] Department of Natural Resources, Land Acquisition Guidelines for pass-through grants.

[22] *Minnesota Statutes* 2013, 97A.056, Subd. 15 (c).

The Department of Natural Resources had not defined costs considered to be field operations and did not have controls to monitor compliance with the level of spending required for field operations from the Heritage Enhancement Account.

Finding 5

The department could not show us how it complied with a statutory requirement that at least 87 percent of the money deposited in the Heritage Enhancement Account be allocated for field operations.[23] The department had not defined the types of costs related to field operations and had not monitored expenditures districts charged to the fund to ensure it met the statutory requirement.

According to the statute, money in the Heritage Enhancement Account (received as in-lieu-of-sales tax on the sale of lottery tickets) "may be spent only on activities that improve, enhance, or protect fish and wildlife resources, including conservation, restoration, and enhancement of land, water, and other natural resources of the state."[24] The department spends about $12 million to $13 million each year from the Heritage Enhancement Account.

The department had not determined what the statute meant by field operations. Lacking a clear definition, we considered field operations to be costs that are directly attributable to the improvement, enhancement, or protection of fish and wildlife resources. Our analysis of the account's expenditures showed that about 9 percent of the expenditures (out of 13 percent available for costs not related to field operations) were for departmental shared services costs, such as human resources and financial services.[25] These shared services costs might not be directly attributable to the field purposes of the account. In addition to departmental shared services costs, the account paid for other costs that might not be directly attributable to the purposes of the account, such as employee leave benefits, employee development and training, and regional office space rental. Without a clear definition of the costs related to field operations, the department can not monitor how it used money in the account to ensure that it complied with the statutory requirement.

[23] *Minnesota Statutes* 2013, 297A.94 (f).

[24] *Minnesota Statutes* 2013, 297A.94 (e) (1).

[25] Shared services are distinct from costs internally billed for the district's direct use of vehicles, equipment, and other items. We did not include these internally billed costs in our calculation of costs that might be not be defined as field operations.

Recommendation

- *The department should ensure compliance with statutory requirements by defining the types of costs considered to be field operations and developing monitoring procedures to ensure that it complies with the requirement that at least 87 percent of the money in the Heritage Enhancement Account be allocated to field operations.*

Finding 6

The Department of Natural Resources did not adequately safeguard certain fixed assets.

The department did not adequately safeguard certain fixed assets, such as boats, motorized vehicles, equipment (of $2,500 or more), and lower valued, but sensitive items, such as canoes, outboard motors, trailers, and radios.[26] As of August 2013, the department's inventory listing totaled over $112 million.

The department had the following weaknesses in its fixed asset inventory management:

- The department did not ensure that the central office and the regional district offices performed annual physical fixed assets inventories, as required by the department's Property Management Policy.[27] The policy requires each office to complete a physical inventory by March 1 each year. However, as of September 2013, no offices had completed physical inventories since January 2012. The state's implementation of a new accounting system in July 2011 likely hindered the department's ability to manage its fixed assets. The department indicated it was unable to generate inventory reports using the accounting system's fixed asset module. However, department staff told us they began a physical inventory in late February 2014.

- The department did not have an effective process to report disposals when a fixed asset was sold, damaged, or scrapped due to obsolescence. An effective process would ensure authorization for any fixed asset sales and prompt removal or adjustment of the inventory records. Inaccurate inventory records hamper the department's ability to conduct an effective physical inventory. Conducting a physical inventory with inventory records that include sold, damaged, or scrapped items will result in recorded items that cannot be located. When these updates are not made to the inventory records, the disposition of missing items is unknown and

[26] The department effectively maintained separate inventory records for weapons and computer equipment issued to employees.

[27] Department of Natural Resources Administrative Manual, Property Management Policy 04:MO2.

employees could more easily hide unauthorized sales or theft of fixed assets. Also, without adherence to a reporting process for sold, damaged, obsolete or missing assets, the department cannot ensure that law enforcement is notified when theft is suspected.

By not performing the physical inventory and maintaining accurate fixed asset records, the department increased the risk that its assets could be lost or stolen without detection.

Recommendations

- *The Department of Natural Resources should conduct an annual physical inventory of its fixed assets, as required by its Property Management Policy.*

- *The Department of Natural Resources should develop an effective process for employees to report assets that are sold, damaged, or scrapped and ensure these asset dispositions are updated to the inventory records.*

Finding 7

The Department of Natural Resources did not always record expenditures correctly in the state's accounting system. This is a repeat finding.

The department did not always use the correct expense account codes in the state's accounting system to accurately identify the nature of several types of expenditure transactions. Since the implementation of the state's new accounting system in July 2011, division accounting staff may not have had sufficient information, training or experience to accurately code some transactions. (We previously reported a similar finding in our 2009 audit of the Game and Fish Fund.[28])

Several divisions had the following coding errors in the expenditure transactions we tested:

- The Forestry Division miscoded over $3.6 million of fiscal year 2012 aircraft services for fire suppression as *out-of-state travel* rather than as *purchased services*. Similarly, the division incorrectly coded $196,418 for aerial photography as a travel cost instead of a purchased services expenditure. In addition, the Fish and Wildlife Division incorrectly coded $68,064 of costs to research deer habitat improvement as *out-of-state travel* instead of *state agency provided professional-technical services*.

[28] Office of the Legislative Auditor's Financial Audit Division Report 09-02, *Department of Natural Resources*, issued January 15, 2009, Finding 10.

- The Fish and Wildlife Division coded $2.4 million of shared services expenses it paid from the Game and Fish Operations account as *agency indirect costs*. The department's Office of Management and Budget Services had directed divisions to code shared services as *agency direct costs* because it believes that its shared services allocation processes are sufficient to directly relate the costs to the operations of the divisions.

- The Operations Services Division coded over $1 million in grant payments from the Outdoor Heritage Fund and the Environmental and Natural Resources Trust Fund using the wrong type of grant code. For example, the division incorrectly coded $479,090 of grants to nongovernmental entities as *grants to special districts,*[29] $294,234 of grants paid to counties as *grants to nongovernmental entities* or *grants to special districts*, and an interagency grant of $12,654 to the Department of Health as *grants to counties*. Using transaction codes to distinguish the type of grant recipient receiving the money is important to accurate grant reporting and could affect the department's grant monitoring efforts.

- The Parks and Trails Division incorrectly coded a $378,235 payment to a vendor for lawn mowing and other services at the state parks as *state agency provided professional-technical services* instead of as *other purchased services*. The state defines a professional-technical service is intellectual in character (such as consulting, analyzing, evaluating, predicting, planning, or programming, or recommending) and results in the production of a report or the completion of a task.

- The Fish and Wildlife Division incorrectly coded as *grants to counties* $150,000 it paid to the Board of Water and Soil Resources for the board's technical assistance to landowners participating in federal conservation programs. The division should have coded the payment as *state agency provided professional-technical services*.

- Various divisions incorrectly coded $33,387 as equipment instead of services or supplies. For example, the Forestry Division miscoded an $11,620 payment for airplane rental and pilot services as *equipment*.

Misidentified expenditure transactions hinder the department's ability to effectively use accounting system reports to analyze spending by the type of expense.

[29] Special districts are governmental councils, commissions, boards, and districts that work within or across jurisdictions.

Recommendation

- *The department should provide training to divisional accounting staff and monitor expense coding to ensure they assign appropriate account codes to expenditure transactions in the state's accounting system.*

Finding 8

The Department of Natural Resources did not ensure that it accurately allocated and documented the cost of shared services, and that divisions charged those allocated costs to dedicated funds and accounts as authorized.

The department had service level agreements with its divisions for centralized, shared services costs such as financial, human resources, and information technology services. The purpose of the service level agreements was for the department to explain the shared services costs allocated and the basis for the allocations. In addition, each division submitted its plan to the department's Office of Management and Budget Services on how they would charge their allocations of shared services costs to the various dedicated funds and accounts within funds.

The department and its divisions had the following weaknesses in their allocations and payments of shared services costs:

Inaccurate allocations of Shared Services Costs. The department had the following errors in its allocations of shared services costs:

- The department used an incorrect fiscal year 2012 index to allocate human resources costs. To develop the allocation, the department inadvertently used an index that combined financial and human resources data rather than using one that only included human resources data.[30] Because of the error, the department allocated about $158,000 more to the Fish and Wildlife Division and about $120,000 less to the Forestry Division (with $38,000 impacting other divisions). As the divisions distributed and paid the allocated shared services costs, the index error resulted in the Game and Fish Fund paying about $119,000 more and the General Fund paying about $68,000 less than if the allocation had used the correct index. (About $51,000 impacted other funds and accounts.) The department also had some smaller errors in indexes it used for some other shared services allocations.

[30] The approved Service Level Agreement for Human Resources from July 1, 2011, to June 30, 2013, indicated the index would be based on full-time equivalent (FTE) and head counts, professional services staffing, job and position actions, and payroll actions.

- The department did not have documentation to support its allocation of about $100,000 related to central management of fixed asset purchases and inventory records. The department's service level agreements stated that they would allocate the cost based on the number of fixed assets purchased and managed in the inventory. However, because inventory information was not available after the implementation of the state's new accounting system in July 2011, department staff based the allocations on other data, but did not retain the data they used or how they determined the allocation percentages.

Lack of monitoring of divisions' payment of shared services costs. The department also did not monitor whether divisions charged shared services costs allocations in accordance with amounts certified and approved by the Office of Management and Budget Services. As a result, the department did not detect that the Forestry Division did not distribute fiscal year 2013 shared services cost allocations from the funding sources approved in the Office of Management and Budget Services certification. The division paid $193,000 more of shared services costs from the Forest Management Investment Account and $205,000 less from the General Fund (with a $12,000 impact on other division accounts) than it had planned.

Having divisions certify how they will charge the cost of shared services to the dedicated funds allows the central office to assess whether those costs are appropriate to the purposes of the funds. By not monitoring whether divisions actually charged shared service costs in accordance with the certifications, the divisions might make errors or changes to the intended allocations that result in dedicated funds paying for shared services that do not correspond to their use of those services.

Recommendations

- *The Department of Natural Resources should improve controls to ensure that its shared services indexes are consistent with the indexes approved in its service level agreements, and that it has documentation to support the basis for the indexes.*

- *The Office of Management and Budget Services should independently monitor divisions' distributions of shared services costs to dedicated funds to ensure compliance with their approved certifications.*

Finding 9

The Department of Natural Resources did not provide its divisions with sufficient guidance to ensure acceptable methods for charging dedicated funds for employee termination costs. This finding includes a prior issue that was not fully resolved.

The department did not develop policies or guidelines to address the inconsistent methodologies divisions used to charge employee termination costs. The requirements for termination costs are specified in various bargaining agreements and personnel plans and generally involve a percentage of the employee's sick leave balance and liquidation of the employee's vacation balance at the time of termination. In our prior audit of the Legacy Funds,[31] we identified that some divisions charged termination costs in ways that may not have equitably distributed the costs to funds that employees worked on. We recommended that the department develop policies or guidelines for allocation of termination costs charged to dedicated funds.

We tested a sample of termination payments and found that divisions continued to use differing methodologies to charge termination costs to dedicated funds. Following are examples of the inconsistencies in how divisions charged employee termination costs:

- The Lands and Minerals Division charged termination costs to the fund(s) that the employees' payroll was paid from at the time they left employment.

- The Forestry Division charged all termination costs to the General Fund regardless of the funding used for employees' regular hours worked.

- The Parks and Trails Division had different methods for charging the termination costs based on the type of cost. It charged sick leave related termination costs based on how the employee had charged payroll over the preceding five years, and charged vacation related termination costs based on the employee's payroll funding at the time they left employment.

By not developing a policy or guideline for charging termination costs, the department risks that divisions will charge dedicated funds for costs that do not comply with the purpose of specific appropriations of dedicated funds or accounts.

Recommendation

- *The department should establish guidelines for how divisions charge employee termination costs to dedicated funds and accounts.*

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[31] Office of the Legislative Auditor's Financial Audit Division Report 11-27, *Legacy Funds: Outdoor Heritage, Clean Water, and Parks and Trails*, issued November 30, 2011, Finding 1.

Finding 10

The Department of Natural Resources allowed some human resources staff to set initial compensation for some new employees beyond the staff's delegated authority.

Some of the department's human resources staff did not have delegated authority for their approval of starting pay rates for some new employees. State rules restrict a department from setting starting pay higher than "the fourth step of the salary range, or more than 12 percent above minimum rate when a range does not contain steps" without prior authorization from the Department of Management and Budget.[32] However, as allowed by statute[33] and state administrative procedure,[34] the Department of Management and Budget can delegate this authority to an agency's appointing authority (usually a commissioner) and "individual employees within that agency." In 2006, the Department of Management and Budget delegated the authority to set starting pay rates for new employees to the department's human resources director, but stated that the human resources director could not further delegate this responsibility to other staff.

We tested a sample of 25 new employees whose starting pay was subject to approval by the department's human resources director or the Department of Management and Budget. For 11 of the 25 authorizations we tested, someone other than the human resources director authorized the starting pay rates. Despite the lack of delegated authority, the starting pay for ten of the new employees we tested was commensurate with the starting pay for others in similar positions.

However, the department did not have documentation to show how they determined the starting pay for one of the eleven new employees we tested whose starting pay was authorized by an employee without delegated authority. This employee was hired into a more highly paid manager position, where compensation could vary widely based on the employee's education, work experience, and credentials. State rules require that, "Appointments above the minimum rate must be based upon the exceptional qualifications of the applicant or the unavailability of applicants at the minimum rate." In a 2010 memo, the Department of Management and Budget informed human resources directors with delegated authority to set starting pay rates that they "must continue to document all salary decisions." Although the department had a form to document "exceptional compensation" decisions, staff were unable to find the form to support the basis for this employee's starting pay.

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[32] *Minnesota Rule* 3900.2100, Subp. 2.

[33] *Minnesota Statutes* 2013, 43A.36.

[34] *Administrative Procedure* 36, Delegation of Authority, issued March 29, 1982.

Recommendation

- *The Department of Natural Resources should ensure that human resources staff only authorizes new employee starting pay within the limits of their authority and that they document the basis for starting pay above the limits in state rules.*

Appendix A – Game and Fish Fund/Accounts Receipts and Expenditures

Table A-1 summarizes Game and Fish Fund receipts by type for fiscal years 2012 and 2013.

Table A-1
Game and Fish Fund Receipts by Type
July 1, 2011, through June 30, 2013

Revenue Source	2012	2013
Federal Grants	$22,364,576	$25,492,009
Fishing License	20,628,171	23,045,979
Hunting License	20,415,597	20,598,398
Lottery Distributions	12,192,918	13,304,475
Sports License	5,189,537	6,188,299
Stamps	2,179,347	2,154,754
Surcharges	2,400,562	2,546,174
License Issuing Fee	3,342,141	3,335,701
Other Revenues[1]	2,218,259	2,363,399
Total	$90,931,108	$99,029,188

[1]Other revenues include timber sales, leasing and easements, fines and restitutions, and other receipts.

Source: State of Minnesota accounting system.

Table A-2 summarizes the Game and Fish Fund receipts by account for fiscal years 2012 and 2013.

Table A-2
Game and Fish Fund Receipts by Account
July 1, 2011, through June 30, 2013

Account Name	2012	2013
Game and Fish Operations	$71,067,245	$77,594,462
Computerized License Deer/Bear Mgmt.	1,019,503	1,056,069
Deer Habitat Improvement	1,347,047	1,397,689
Waterfowl Habitat Improvement	609,345	615,150
Trout and Salmon Management	845,499	826,585
Pheasant Habitat Improvement	579,132	608,513
Wild Rice Management	37,911	26,665
Wildlife Acquisition Surcharge	1,751,841	1,669,169
Wild Turkey Management	172,598	204,062
Heritage Enhancement	12,205,343	13,306,298
Lifetime Fish and Wildlife Trust	1,150,259	1,369,370
Walleye Stamp Account	145,371	104,759
Peace Officer Training Account	14	99
Wolf Management and Monitoring[1]	0	250,298
Totals	$90,931,108	$99,029,188

[1] The Wolf Management and Monitoring account was new in fiscal year 2013.

Source: State of Minnesota accounting system.

Table A-3 summarizes the Game and Fish Fund by expenditure type for fiscal years 2012 and 2013.

Table A-3
Game and Fish Fund Expenditures by Type
July 1, 2011, through June 30, 2013

Expenditures	2012	2013
Payroll	$55,862,758	$56,544,085
Agency Direct and Indirect Costs	10,016,405	15,243,224
Travel	6,048,055	4,999,348
Professional/Technical Services	4,789,711	6,427,134
Supplies	3,879,025	4,727,944
Land	1,397,420	2,234,498
Aid and Grants	1,395,879	1,198,519
Other Expenditures[1]	5,679,876	6,675,476
Total	$89,069,129	$98,050,228

[1]Other expenditures include various services, space rental, communications, employee development, and other operating costs.

Source: State of Minnesota accounting system.

Table A-4 shows Game and Fish Fund expenditures by account for fiscal years 2012 and 2013.

Table A-4
Game and Fish Fund Expenditures by Account
July 1, 2011, through June 30, 2013

Account Name	2012	2013
Game and Fish Operations	$70,277,726	$78,119,614
Computerized License Deer/Bear Management	642,367	872,385
Deer Habitat Improvement	1,085,527	1,607,629
Waterfowl Habitat Improvement	735,721	485,719
Trout and Salmon Management	777,426	771,051
Pheasant Habitat Improvement	742,302	588,277
Wild Rice Management	50,605	70,000
Wildlife Acquisition Surcharge	2,041,122	1,562,886
Wild Turkey Management	192,463	229,965
Heritage Enhancement	12,324,589	13,150,953
Walleye Stamp Account	144,705	148,571
Peace Officer Training Account	54,576	177,976
Wolf Management and Monitoring[1]	0	265,202
Total	$89,069,129	$98,050,228

[1] The Wolf Management and Monitoring account was new in fiscal year 2013.

Source: State of Minnesota accounting system.

Appendix B – Natural Resources Fund Receipts and Expenditures

Table B-1 summarizes Natural Resources Fund receipts by account for fiscal years 2012 and 2013.

Table B-1
Natural Resources Fund Receipts by Account
July 1, 2011, through June 30, 2013

Account Name	2012	2013
All Terrain Vehicle	$ 4,373,348	$ 4,285,908
Cross Country Ski	98,865	325,696
Forest Management Investment	3,221,975	3,290,752
Invasive Species	1,447,198	1,325,743
Land Acquisition	335,599	426,523
Mineral Management	10,112,054	9,815,668
Mining Administration Account	646,519	637,437
Natural Resources Misc. Statutory	1,541,847	3,346,794
Nongame	1,028,236	979,072
Off-Highway Motorcycle	130,617	122,119
Off-Road Vehicle	45,094	45,073
Snowmobile	3,682,932	7,116,457
State Land and Water Conservation	1,005,975	680,865
State Park	9,789,497	11,394,589
State Parks & Trails (lottery in lieu)	617	2,098
Water Management Account	4,875,653	5,469,398
Water Recreation	7,761,608	7,255,790
Total	$50,097,634	$56,519,982

Note: In addition to receipts collected by the department, the Department of Transportation annually transferred approximately $20 million to $25 million of estimated gasoline tax revenues to the department for use in Water Recreation, Snowmobile, All-Terrain Vehicle, Off-Highway Motorcycle, and Off-Road Vehicle accounts.

Source: State of Minnesota accounting system

Table B-2 summarizes Natural Resources Fund expenditures by account for fiscal years 2012 and 2013.

Table B-2
Natural Resources Fund Expenditures by Account
July 1, 2011, through June 30, 2013

Account Name	2012	2013
All-Terrain Vehicle	$ 5,790,907	$ 6,312,399
Cross Country Ski	182,912	315,121
Forest Management Investment	12,492,379	11,483,215
Invasive Species	2,342,042	3,323,894
Land Acquisition	207,718	129,763
Local Trails Grants Lottery in Lieu	336,637	781,782
Mineral Management	2,734,941	3,009,757
Mining Administration Account	519,016	693,680
Natural Resource Misc. Statutory	2,621,469	2,793,587
Nongame	1,231,068	632,026
Off-Highway Motorcycle	492,476	339,428
Off-Road Vehicle	963,666	804,061
Snowmobile	13,314,812	13,145,031
State Land and Water Conservation	737,958	384,478
State Park	10,749,863	11,849,392
State Parks and Trails Lottery in Lieu	5,820,321	5,881,532
Water Management Account	4,180,279	5,503,545
Water Recreation	16,430,384	18,165,306
Zoos Lottery in Lieu	320,000	240,000
Total	$81,468,848	$85,787,997

Source: State of Minnesota accounting system.

Appendix C – Shared Services

Table C
Shared Services Allocation Methods and Amounts
July 1, 2010, through June 30, 2013

Shared Service Area	Allocation Index Method	2011	2012	2013
Human Resources	Full-time equivalent and head counts, professional services staffing, job and position actions, payroll actions	$2,705,915	$2,775,894	$2,852,381
Office of Management and Budget Services	Average unit revenues and expenditures, percent of allotments	$5,445,068	$5,352,184	$5,775,720
Office of Communication and Outreach	Project hours, phone calls, volunteer and education programs, other consolidated fiscal/HR items	$2,633,793	$2,629,550	$2,733,005
Management Resources – Safety	Full-time Equivalent, 5-year rolling average of accident claims, workers' compensation costs	$696,589	$722,071	$725,227
Management Resources – Procurement	Fixed assets inventory counts (20%), purchasing activity over four years (80%)	$484,828	$502,519	$512,953
Management Resources – Facilities	Facility value and condition, square feet and 4-year average use of technical/feasibility services	$4,492,050	$4,492,050	$4,431,213
Management Resources – Fleet	Directly billed based on usage (miles and hours)	$14,769,754	$14,655,138	$16,050,488
Management Resources – Management Information Systems	Number of network accounts, logins, and computers, technical support, revenue transactions, Geographic Information System usage	$5,958,395	$5,943,921	$6,232,700
Total		$37,186,392	$37,073,327	$39,313,687

Source: Auditor created from department records.

Minnesota Department of Natural Resources
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Minnesota DEPARTMENT OF NATURAL RESOURCES

April 17, 2014

Mr. James Nobles
Legislative Auditor
Centennial Office Building, Room 140
685 Cedar Street
St. Paul, Minnesota 55155-1603

RE: OLA Audit Report on Department of Natural Resources (DNR) Internal Controls and Compliance Audit July 2010 through February 2013

Dear Auditor Nobles:

Thank you for the opportunity to respond to the OLA draft report on DNR's internal controls and compliance audit. The DNR offers the following specific comments regarding the findings:

Audit Finding #1

The Department of Natural Resources did not adequately verify the accuracy of hours worked and allocation of payroll costs for employees that did not complete their own timesheets and direct supervisors did not approve their hours. In addition, the department did not review a key payroll system report to ensure the overall accuracy of payments for employees.

Audit Recommendations

The DNR should document its review of the self-service time entry audit report to show that the review was sufficient to ensure the accuracy and authorization of hours worked and leave taken.

DNR Response: Partially Resolved - The Department currently conducts random, detailed reviews of self-service time entry each pay period and comprehensive reviews each quarter. However, during the course of this audit, the documentation from these reviews was found to be inadequate. Therefore, moving forward, staff will track which employee entries were reviewed on the report and what, if any, comments were made to the employee or approver. Such documentation will be retained in an audit file for each pay period and quarterly payroll review.

Person responsible: Lisa Hager
Completion date: December 31, 2014

Audit Recommendations

The DNR should strengthen the integrity of its payroll transactions by reducing the volume of 1) timesheets not completed by employees, and 2) timesheets approved by backup approvers.

DNR Response – Partially Resolved - The reference to "timesheets not completed by employees" is somewhat misleading. These may not be timesheets that are entered, in total, by a supervisor. It indicates that the last person to mark the timesheet as "complete" (a check mark entry) was someone other than the employee. This could occur if a supervisor corrects the cost coding, or notes that an employee called in a sick day on the last day of the pay period when he/she had already submitted a time sheet, indicating hours were worked on that day.

DNR will continue to make every attempt to ensure that employees handle changes to their timesheets whenever possible. However, when an employee is not available, due to illness or unavailability in the field, supervisors will be instructed to make some time sheet corrections. Supervisors will be instructed to provide reasons for the changes in the comment field.

Person responsible: Denise Legato
Completion date: July 1, 2014

Audit Recommendations

The DNR should not allow employees with the ability to approve their own timesheets.

DNR Response: Partially Resolved - Given the structure of the system, it is possible for a situation to occur where someone is set up to approve his or her own time sheet (typically when someone is in a work out of class or there is a delay in appointing a replacement for a previous approver).However, when this occurs, the payroll approval is elevated to the next level up or into HR to avoid a situation where an individual would approve his/her own time sheet. The audit report notes that no instances were found where any individual approved his/her own timesheet.

Audit Recommendations

The DNR should review the payroll register report to verify the accuracy of payroll data used in processing paychecks and retain evidence of the review.

DNR Response: Partially Resolved - The agency will conduct another layer of review of the payroll register to verify the accuracy of the payroll data used in processing expense reimbursements.

Person responsible: Jerry Hampel
Completion date: July 1, 2014

Audit Finding #2

The DNR did not always document its reasons for making payroll adjustments that moved costs between dedicated accounts.

Audit Recommendations

The department should ensure that divisions have documented the rationale for payroll expense corrections.

The Department should determine whether it needs additional controls to ensure it charges payroll costs to an appropriate account at the time the employee does the work, rather than relying on payroll expense transfers to fix recurring funding problems.

DNR Response: Partially Resolved - The DNR is revising the payroll correction form to include a section for "rationale." Staff will also receive training and instructions on what must be included in this section to be considered adequate rationale before a correction can be made.

Person responsible: Jerry Hampel
Completion date: December 31, 2014

Audit Finding # 3

The DNR did not adequately mitigate the risk created by employees with incompatible access to the state's accounting system.

Audit Recommendations

The DNR should develop, document, implement, and monitor internal controls to mitigate the risk created by employees' incompatible access to the state's accounting system.

DNR Response: Resolved - As the report notes, since 2013, the DNR has been taking steps to mitigate these risks for employees posing a high risk due to incompatible access to the state's accounting system. To address those who pose a moderate to low risk, the Department requested monitoring reports on the state system from MMB. To date, MMB has been unable to supply the necessary reports. When those reports become available, we are confident we can provide similar risk mitigation for low and moderate risk staff as we did previously for higher risk staff with incompatible access.

Person responsible: Jerry Hampel
Completion date: See response.

Audit Finding # 4

The Department of Natural Resources did not comply with certain state grant policies and department guidelines for grants paid from the Outdoor Heritage Fund and the Environmental and Natural Resources Trust Fund.

Audit Recommendations

The DNR should conduct grantee site monitoring visits, as required by state grants management policies, or obtain approval from the Department of Administration for other oversight procedures.

DNR Response: Resolved – The department has been operating in compliance with Administration's OGM 08-10 since April 2013.

Person responsible: Amanda Graeber
Completion date: Completed

Audit Recommendations

The DNR should ensure that grantees submit all required evidence and documentation to support grants for land acquisitions.

DNR Response: Resolved - A grants management database was put in place in September 2012. It tracks requirements, and e-mails the Grants Specialist if a recipient is delinquent in submitting required documentation. This process ensures that the grantee submits the necessary documents.

Person responsible: Amanda Graeber
Completion date: Completed

Audit Finding # 5

The DNR had not defined costs considered to be field operations and did not have controls to monitor compliance with the level of spending required for field operations from the Heritage Enhancement Account.

Audit Recommendations

The department should ensure compliance with statutory requirements by defining the types of costs considered to be field operations and developing monitoring procedures to ensure that it complies with the requirements that at least 87 percent of the money in the Heritage Enhancement Account be allocated to field operations.

DNR Response: Partially Resolved – The department is currently involved with a project that will define the term "field operations" as it applies to the Heritage Enhancement Account funds appropriated to the DNR. The draft policy and procedures will be presented to the Commissioner's Office on April 17, 2014.
In the policy, Field Operations, as defined by the DNR, will include work that is directly tied toward improving, enhancing or protecting fish and wildlife resources in the regions or by staff in the central office staff who advise or oversee field operations. The policy will ensure that field operations and expenditures are properly coded within SWIFT, the state's financial accounting system, to ensure compliance with the policy and state statute. DNR will conduct a preliminary financial reconciliation before the end of the biennium, or more often if needed, to ensure that the department complied with this policy.

Person responsible: Marcia Honold
Completion date: June 30, 2014

Audit Finding # 6

The DNR did not adequately safeguard certain fixed assets.

Audit Recommendations

The DNR should conduct an annual physical inventory of its fixed assets, as required by its Property Management Policy.

DNR Response: Partially Resolved - After being unable to get reliable asset information from SWIFT for the calendar 2012 inventory, the Department's physical inventory for calendar 2013 is currently underway, and Is 99+ % complete.

Person Responsible: Kent Lokkesmoe
Completion date: October 1, 2014

Audit Recommendations

The DNR should develop an effective process for employees to report assets that are sold, damaged, or scrapped and ensure that asset dispositions are updated in inventory records.

DNR Response: Partially Resolved - The Department is working to improve our process of reporting asset disposals to provide better information and tracking when assets are sold, damaged, scrapped or lost.

Person Responsible: Kent Lokkesmoe
Completion date: December 31, 2014.

Audit Finding # 7

The Department of Natural Resources did not always record expenditures correctly in the state's accounting system. This is a repeat finding.

Audit Recommendations

The department should provide training to divisional accounting staff and monitor expense coding to ensure they assign appropriate expense codes to expenditure transactions in the state's accounting system.

DNR Response: Partially Resolved - The Department has already created written guides for staff to assist with coding accuracy and will continue to monitor to ensure that every opportunity is taken to enhance staff's expertise in accurate coding in the state's accounting system.

Person responsible: Jerry Hampel
Completion date: June 30, 2015.

Audit Finding # 8

The DNR did not ensure that it accurately allocated and documented the cost of shared services, and that divisions charged those allocated costs to dedicated funds and accounts as authorized.

Audit Recommendations

The DNR should improve controls to ensure that its shared services indexes are consistent with the indexes approved in service level agreements, and that it has documentation to support the basis for the indices.

The Office of Management and Budget Services should independently monitor divisions' distributions of shared services costs to dedicated funds to ensure compliance with their approved certifications.

DNR Response: Resolved – The DNR agrees that the department mistakenly used the consolidated index instead of the HR index to calculate the FY2012 shared services billing. This mistake occurred during the department's preparations for the state-wide shut-down and the implementation of

SWIFT. The Department has added a second review of methodology, assumptions and application of the rate. This control will ensure the errors are eliminated in the future.

The department recalculated the bill using the correct indices and discovered that this error did have a material impact for some divisions. The differences were documented and posted to the DNR intranet under the 2012 spending plan instructions section. DNR was able to make the adjustments before the end of the biennium.
In addition, starting in FY14, shared services costs are allocated based on rates rather than indices. The Operations Services Division's business office leads the development of rates and charges to the disciplines. The Office of Management and Budget Services provides the financial leadership to shared services, including certification of the funding sources for shared services billings provided by the disciplines. The increased separation of duties allow for improved fiscal oversight and internal controls.

Person responsible: Marcia Honold
Completion date: July 1, 2014

Audit Finding # 9

The DNR did not provide its divisions with sufficient guidance to ensure acceptable methods for charging dedicated funds for employee termination costs. This finding includes a prior issue that was not fully resolved.

Audit Recommendations

The department should establish guidelines for how divisions charge employee termination costs to dedicated funds and accounts.

DNR Response: Partially Resolved -- the Department concurs with the finding. Beginning in FY 2014 the Department now reviews and discusses the appropriateness of all severance payments as part of multiple periodic reviews each year with each program. Funding has evolved and changed over what would constitute a career within the Department of Natural Resources and we must pay severance from funds available to the DNR today. We feel a singular approach via a guidance document will not adequately address such a complex challenge. We will provide general guidelines for what to consider when posting severance pay but the review process will be needed to ensure fund integrity is maintained.

Person responsible: Jerry Hampel
Completion date: June 30, 2015.

Audit Finding #10

The DNR allowed some human resources staff to set initial compensation for some new employees beyond the staff's delegated authority.

Audit Recommendations

The DNR should ensure that human resources staff only authorizes new employee starting pay within the limits of their authority and that they document the basis for starting pay above the limits in state rules.

DNR Response: Resolved - Currently, only the Director of Human Resources approves new employees starting salaries exceeding state limits. No other staff in Human Resources can approve salaries above the fourth step.

Person responsible: Denise Legato
Completion date: Completed

Sincerely,

Tom Landwehr
Commissioner