Department of Iron Range Resources and Rehabilitation

Performance Audit

May 2022

Financial Audit Division

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division

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OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA • Judy Randall, Legislative Auditor

May 27, 2022

Members
Legislative Audit Commission

Iron Range Resources and Rehabilitation Advisory Board

Mark Phillips, Commissioner
Department of Iron Range Resources and Rehabilitation

This report presents the results of our internal controls and compliance audit of the Department of Iron Range Resources and Rehabilitation for the period July 2017 through February 2020. The objectives of this audit were to determine if the department had adequate internal controls over selected financial activities and complied with significant finance-related legal requirements.

This audit was conducted by Scott Tjomsland, CPA (Audit Director); Audit Coordinators Ryan Baker, CFE; and Zach Yzermans, CPA; and auditors Sarah Bruder, CPA; Bill Dumas; Gabrielle Johnson, CPA; Shelby McGovern; Alec Mickelson; and Zakeeyah Taddese.

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

Sincerely,

Lori Leysen, CPA
Deputy Legislative Auditor

Scott Tjomsland, CPA
Audit Director

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Introduction

The Department of Iron Range Resources and Rehabilitation is a state agency focused on economic development in northeastern Minnesota.[1] The department provides loans and grants to businesses, local units of government, and nonprofit organizations that are intended to stimulate economic growth, develop workforce skills, and enhance local communities. The department also owns Giants Ridge, which is a ski and golf complex.

We conducted this audit to determine whether the department had adequate internal controls to ensure it safeguarded resources, complied with significant finance-related legal requirements, and resolved prior audit findings.[2] We audited grant expenditures, loan disbursements and collections, Giants Ridge operations, other miscellaneous revenues, payroll and nonpayroll expenditures, and the inventory of assets. The period under examination went from July 1, 2017, through February 29, 2020.

Internal controls are the policies and procedures management establishes to govern how an organization conducts its work and fulfills its responsibilities. A well-managed organization has strong controls across all of its internal operations. If effectively designed and implemented, controls help ensure, for example, that inventory is secured, computer systems are protected, laws and rules are complied with, and authorized personnel properly document and process financial transactions.

Minnesota Law Mandates Internal Controls in State Agencies

State agencies must have internal controls that:

- Safeguard public funds and assets and minimize incidences of fraud, waste, and abuse.
- Ensure that agencies administer programs in compliance with applicable laws and rules.

The law also requires the commissioner of the Department of Management and Budget to review OLA audit reports and help agencies correct internal control problems noted in those reports.

— *Minnesota Statutes* 2021, 16A.057

Auditors focus on internal controls as a key indicator of whether an organization is well managed. In this audit, we focused on whether the department had controls to ensure that it safeguarded state resources; appropriately spent state funds; and accurately paid its vendors, employees, and board and committee members in compliance with state laws and policies.

[1] *Minnesota Statutes* 2021, 298.22.

[2] Office of the Legislative Auditor, Financial Audit Division, *Iron Range Resources: Internal Control and Compliance Audit* (St. Paul, 2009).

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Report Summary

Conclusions

Although the Department of Iron Range Resources and Rehabilitation generally complied with the significant finance-related legal requirements we tested and generally had adequate internal controls, we identified a number of instances of noncompliance and internal control weaknesses. The more significant instances of noncompliance and internal control weakness were in the areas of grants monitoring, employee separation payments, and asset management. The list of findings below and the full report provide more information about these concerns.

Findings

	Internal Controls Not Adequate	Did Not Comply with Legal Requirements
Finding 1. The Department of Iron Range Resources and Rehabilitation did not always monitor grants as required by state policy. (p. 16)	✓	✓
Finding 2. The Department of Iron Range Resources and Rehabilitation used a portion of the appropriations for Carlton and Koochiching counties on administrative costs without legal authority. (p. 17)		✓
Finding 3. The Department of Iron Range Resources and Rehabilitation did not always take appropriate actions to collect payments for delinquent loans. (p. 20)	✓	✓
Finding 4. The Department of Iron Range Resources and Rehabilitation did not deposit Giants Ridge cash and check sales receipts in compliance with state law and the terms of the waiver authorized by the Department of Management and Budget. (p. 21)	✓	✓
Finding 5. Prior Finding: The Department of Iron Range Resources and Rehabilitation did not develop certain procedures required by state policy for recording and depositing check receipts. (p. 23)	✓	✓
Finding 6. Prior Finding: The Department of Iron Range Resources and Rehabilitation assigned incompatible payroll system access profiles to an employee without compensating controls. (p. 26)	✓	✓
Finding 7. The Department of Iron Range Resources and Rehabilitation set the starting salary for one new employee at an amount that required Department of Management and Budget approval without obtaining that approval. (p. 27)	✓	✓
Finding 8. The Department of Iron Range Resources and Rehabilitation overpaid two employees and underpaid one employee for retroactive pay rate adjustments. (p. 28)	✓	✓

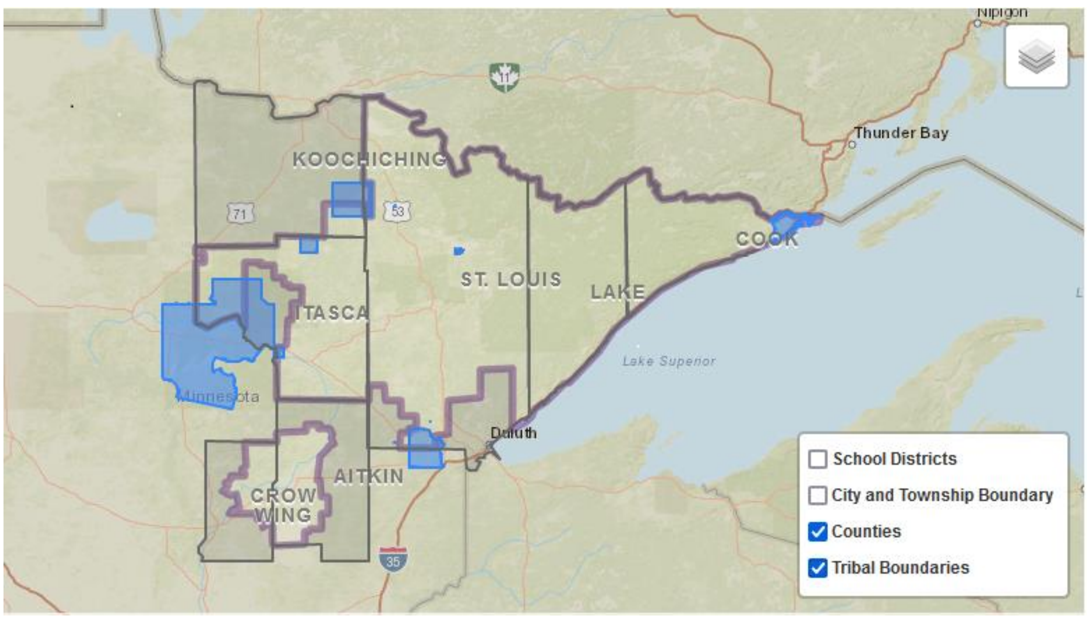
	Internal Controls Not Adequate	Did Not Comply with Legal Requirements
Finding 9. The Department of Iron Range Resources and Rehabilitation incorrectly compensated several employees for overtime. (p. 29)	✓	✓
Finding 10. The Department of Iron Range Resources and Rehabilitation overpaid severance to a former employee. (p. 32)	✓	✓
Finding 11. The Department of Iron Range Resources and Rehabilitation did not review the Self Service Business Expense Audit Report. (p. 33)		✓
Finding 12. The Department of Iron Range Resources and Rehabilitation overpaid several advisory board and technical advisory committee members for mileage reimbursements. (p. 34)	✓	✓
Finding 13. The Department of Iron Range Resources and Rehabilitation did not manage its assets in compliance with state policy. (p. 37)	✓	✓
Finding 14. The Department of Iron Range Resources and Rehabilitation did not require cardholders of state purchasing cards to sign agreements every three years. (p. 38)	✓	✓
Finding 15. The Department of Iron Range Resources and Rehabilitation did not manage its imprest cash account in compliance with state policy. (p. 39)	✓	✓

Background

Department of Iron Range Resources and Rehabilitation Overview and History

The 1941 Legislature created the Department of Iron Range Resources and Rehabilitation to strengthen and diversify the economy of northeastern Minnesota.[3] The department's mission is to "invest resources to foster vibrant growth and economic prosperity in northeastern Minnesota."[4] The department's service area, referred to in state law as the taconite assistance area, includes 53 cities, 134 townships, portions of 4 tribal nations, and 14 school districts in the northeastern counties of Aitkin, Cook, Crow Wing, Itasca, Lake, and St. Louis.[5] The department also provides resources to Carlton and Koochiching counties.[6] Exhibit 1 displays the taconite assistance area.

Exhibit 1: Taconite Assistance Area



SOURCE: Department of Iron Range Resources and Rehabilitation, https://mn.gov/irrrb/about-us/who-we-serve/, accessed May 2, 2022.

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[3] *Minnesota Statutes* 2021, 298.22.

[4] Department of Iron Range Resources and Rehabilitation, https://mn.gov/irrrb/about-us/what-we-do/, accessed May 2, 2022.

[5] *Minnesota Statutes* 2021, 273.1341.

[6] *Minnesota Statutes* 2021, 298.17.

Located in Eveleth, the department employs approximately 45 staff and is led by a commissioner appointed by the governor. Mark Phillips has been the commissioner since January 2015. The department also has a nine-member advisory board that "consists of the state senators and representatives elected from state senatorial or legislative districts in which one-third or more of the residents reside in a taconite assistance area…" and an "additional state senator…appointed by the senate Subcommittee on Committees of the Committee on Rules and Administration."[7] State law requires the department to submit its planned expenditures and projects to the board for review, which recommends approval, disapproval, or modification.[8] In addition, the department has a technical advisory committee appointed by the commissioner.[9] The committee evaluates project proposals and provides recommendations to the advisory board.

To achieve its mission, the department provides financial assistance in the form of loans and grants to businesses, local units of government, and nonprofit organizations. The department offers flexible, low-interest business loans to businesses relocating to the taconite assistance area, existing businesses in the area that are expanding, and new businesses in the area. Loans may be used for land and building acquisition; building renovation or construction; land improvements; and purchases of machinery, equipment, and inventory.

The department offers grants through various programs, as detailed below.

- Community grant programs provide funding to local units of government and nonprofit organizations for projects including commercial and residential redevelopment, infrastructure, and downtown streetscapes.

- Mining grant programs include incentives to businesses to stimulate exploration for new minerals or new deposits of minerals, funding to local units of government and nonprofit organizations for projects to develop and restore land impacted by mining, and legislatively mandated grants to taconite producers.

- Application grants reimburse local units of government and nonprofit organizations for the costs of preparing and applying for economic development grants from other entities.

- Business energy retrofit grants provide funding to businesses for projects to improve energy efficiency and upgrade buildings for code compliance.

- Culture and tourism grants provide funding to local units of government for projects involving arts, culture, heritage, and recreational activities.

- Development partnership grants provide funding to economic development partners and organizations for research, education, and development-based initiatives that support long-term economic growth.

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[7] *Minnesota Statutes* 2021, 298.22, subd. 1a.

[8] *Ibid*.

[9] *Minnesota Statutes* 2021, 298.297.

- Regional trails grants provide funding to local units of government and nonprofit organizations for designing, engineering, and constructing various types of trails.

- Workforce development grants provide funding to accredited post-secondary education institutions, state agencies, and nonprofit organizations for education, training, and career awareness initiatives.

The department also owns Giants Ridge, a ski and golf complex located in Biwabik. The department purchased Giants Ridge in 1984 to develop recreation-based jobs, create economic development, and provide recreation facilities for the Iron Range.

The department is primarily funded from a portion of the production tax on taconite and iron sulphides paid by mining companies in lieu of property taxes. The department also retains loan payments collected from borrowers, operating revenues from Giants Ridge, interest earnings on cash balances held in the state treasury, and other miscellaneous revenues. In addition, the department receives three annual General Fund appropriations based on annual production levels of taconite and iron sulphides. Finally, the department receives revenue from special local taxes imposed in the Giants Ridge recreation area.

Audit Scope, Objectives, Methodology, and Criteria

We conducted this audit to determine whether the Department of Iron Range Resources and Rehabilitation had adequate internal controls to ensure it safeguarded resources, complied with significant finance-related legal requirements, and resolved prior audit findings.[10] We audited grant expenditures, loan disbursements and collections, Giants Ridge operations, other miscellaneous revenues, payroll and nonpayroll expenditures, and the inventory of assets. The period under examination went from July 1, 2017, through February 29, 2020. Exhibit 2 shows the department's General Fund appropriations, revenues, and expenditures during the scope of the audit.

[10] Office of the Legislative Auditor, Financial Audit Division, *Iron Range Resources: Internal Control and Compliance Audit* (St. Paul, 2009).

Exhibit 2: Appropriations, Revenues, and Expenditures, July 1, 2017, through February 29, 2020

General Fund Appropriations[a]	$ 14,920,914

Revenues	Amount
Production Tax on Taconite and Iron Sulphides[b]	$126,723,057
Loan Payments	16,951,354
Giants Ridge Operations	12,165,161
Interest Earnings[c]	7,651,633
Other Revenues	828,967
Special Local Tax for Giants Ridge[d]	294,442
Non-Dedicated Receipts[e]	5,526
Total	$164,620,140

Expenditures	Amount
Grants	$ 74,298,922
Loan Disbursements	14,289,618
Giants Ridge Management Agreement	20,720,476
Payroll	13,457,515
Per Diems and Expense Reimbursements	204,975
Debt Service	11,261,485
Other Expenditures	15,483,798
Total	$149,716,789

[a] *Minnesota Statutes* 2021, 298.17 and 298.285, establish three annual General Fund appropriations to the department based on annual production levels of taconite and iron sulphides. As of February 29, 2020, the department had received only one of the three annual appropriations for Fiscal Year 2020.

[b] *Minnesota Statutes* 2021, 298.24, establishes the production tax on taconite and iron sulphides. *Minnesota Statutes* 2021, 298.28, allocates portions of that tax to the department. The Department of Revenue collects production taxes and posts the amounts allocated to the department to the department's appropriation accounts in the state's accounting system. We did not audit the collection and allocation of these taxes.

[c] The Department of Management and Budget posts the interest earnings on the department's cash held in the state treasury to the department's appropriation accounts in the state's accounting system. We did not audit the interest earnings.

[d] *Laws of Minnesota* 2010, Chapter 389, art. 5, sec. 7, authorized the city of Biwabik and the department to impose an admissions and recreation tax, a food and beverage tax, and a lodging tax in the Giants Ridge recreation area, and appropriated the proceeds to the department "for the construction, renovation, improvement, expansion, and maintenance of public recreational facilities…" in the Giants Ridge recreation area. The city and the department imposed a 2 percent admissions and recreation tax, a 1 percent food and beverage tax, and a 2 percent lodging tax. The Department of Revenue collects the taxes and posts them to the department's appropriation accounts in the state's accounting system. We did not audit these taxes.

[e] The department does not retain nondedicated receipts. Instead, those receipts are deposited into the state's General Fund. We did not audit the nondedicated receipts.

SOURCE: State of Minnesota's accounting system.

Grants

This part of the audit focused on grant expenditures. We designed our work to address the following questions:

- Were the department's internal controls adequate to ensure it awarded grants to eligible applicants for eligible projects in compliance with applicable legal provisions, properly executed grant agreements, accurately disbursed grant funds, and properly monitored grantee compliance with grant terms?

- Did the department award grants to eligible applicants for eligible projects in compliance with applicable legal provisions, properly execute grant agreements, accurately disburse grant funds, and properly monitor grantee compliance with grant terms?

- Did the department resolve prior audit findings?

To answer these questions, we interviewed department staff to gain an understanding of the department's internal controls and compliance requirements over grants. We also reconciled grant expenditures recorded in the state's accounting system to grant expenditures recorded in the department's grants system, and utilized the grants system data for testing. Finally, we tested the awards and grant agreements, grant expenditures, and grant monitoring activities for samples of grants.

Loans

This part of the audit focused on loan disbursements and collections of loan payments. We designed our work to address the following questions:

- Were the department's internal controls adequate to ensure that it approved loans to eligible applicants for eligible projects in compliance with applicable legal provisions, properly executed loan documents, accurately disbursed loan proceeds, collected loan payments in compliance with loan terms, and properly safeguarded and deposited loan payments?

- Did the department approve loans to eligible applicants for eligible projects in compliance with applicable legal provisions, properly execute loan documents, accurately disburse loan proceeds, collect loan payments in compliance with loan terms, and properly safeguard and deposit loan payments?

- Did the department resolve prior audit findings?

To answer these questions, we interviewed department staff to gain an understanding of the department's internal controls and compliance requirements over loans. The department implemented a new loans system during the scope of the audit, and we verified that the department accurately transferred outstanding loan balances from the prior system to the new system. We reviewed and verified the department's reconciliations of loan disbursements and collections recorded in the state's accounting system to amounts recorded in the department's loans systems, and utilized the data from the loans systems for testing. We also reviewed employee access rights to the current loans system, and tested samples of loan disbursements and loan payments collected. Finally, we verified the accuracy of outstanding loan balances and payment statuses on the reports generated by the department's loans system, and reviewed the department's actions on delinquent loans.

Giants Ridge

This part of the audit focused on the revenues from Giants Ridge operations and the payments to the management company hired to operate Giants Ridge. We designed our work to address the following questions:

- Were the department's internal controls adequate to ensure that it accurately reimbursed the Giants Ridge management company for operating expenses actually incurred, accurately calculated management fees and incentive fees paid to the management company, and collected accurate revenue amounts from Giants Ridge operations?

- Did the department accurately reimburse the Giants Ridge management company for operating expenses actually incurred, accurately calculate management fees and incentive fees paid to the management company, and collect accurate revenue amounts from Giants Ridge operations?

To answer these questions, we interviewed department staff to gain an understanding of the department's internal controls and compliance requirements over Giants Ridge. We tested a sample of deposit transactions for Giants Ridge operating revenues. We also tested a sample of payments to the management company for reimbursements of its Giants Ridge operating expenses. Finally, we tested the management fees and any incentive fees the department paid to the management company.

Other Revenues

This part of the audit focused on receipts other than taxes, loan payments, Giants Ridge operating revenues, interest, and nondedicated receipts. We designed our work to address the following questions:

- Were the department's internal controls adequate to ensure it collected the correct amounts for various activities, and safeguarded and properly deposited receipts?

- Did the department collect correct amounts for various activities, and safeguard and properly deposit receipts?

- Did the department resolve prior audit findings?

To answer these questions, we interviewed department staff to gain an understanding of the department's internal controls and compliance requirements over receipts. We tested the receipts collected from lease, easement, and grant agreements. We also tested a sample of receipts from sales of surplus supplies and equipment. Finally, we tested a sample of other receipts.

Payroll Expenditures

This part of the audit focused on the accuracy of the compensation paid to employees. We designed our work to address the following questions:

- Were the department's internal controls adequate to ensure that it accurately compensated employees in compliance with applicable legal provisions?
- Did the department accurately compensate employees in compliance with applicable legal provisions?
- Did the department resolve prior audit findings?

To answer these questions, we interviewed department staff to gain an understanding of the department's internal controls and compliance requirements over payroll expenditures. We also analyzed holiday pay and conversions of leave to deferred compensation to determine compliance with employment contracts. Finally, our detailed testing included the following:

- We reviewed employee access rights to the state's payroll system.
- We tested the initial pay rates for all employees hired during the scope of the audit, all pay rate changes for a sample of employees, and a sample of retroactive pay rate adjustments.
- We tested the department's review of payroll reports for a sample of pay periods, and tested a sample of employee timesheets.
- We tested a sample of overtime pay.
- We tested supplemental pay to employees, including a sample of payments for equipment and shift differentials, all holiday and compensatory time payoffs, and all mobile device and clothing allowance payments.
- We tested all paid parental leave, jury duty leave, and miscellaneous leave, and tested all employee leave balance adjustments.
- We tested all separation payments, including vacation payoffs, severance, and early retirement incentives.
- We tested the allocation of payroll expenditures for an employee shared by the department and another state agency under an interagency agreement.

Per Diems and Expense Reimbursements

This part of the audit focused on per diems paid to members of the advisory board and members of the technical advisory committee, and expense reimbursements paid to employees, board members, and committee members. We designed our work to address the following questions:

- Were the department's internal controls adequate to ensure it accurately compensated members of the advisory board and technical advisory committee, and accurately reimbursed employees, advisory board members, and technical advisory committee members for business expenses, in compliance with applicable legal provisions?

- Did the department accurately compensate members of the advisory board and technical advisory committee, and accurately reimburse employees, advisory board members, and technical advisory committee members for business expenses, in compliance with applicable legal provisions?

- Did the department resolve prior audit findings?

To answer these questions, we interviewed department staff to gain an understanding of the department's internal controls and compliance requirements over per diems and expense reimbursements. We tested a sample of per diems and expense reimbursements to advisory board and technical advisory committee members, and a sample of expense reimbursements to employees.

Debt Service

This part of the audit focused on the debt service expenditures for outstanding revenue bonds issued by the department. We designed our work to address the following questions:

- Were the department's internal controls adequate to ensure it accurately paid debt service expenditures from the appropriate funding sources in compliance with applicable legal provisions?

- Did the department accurately pay debt service expenditures from the appropriate funding sources in compliance with applicable legal provisions?

To answer these questions, we interviewed department staff to gain an understanding of the department's internal controls and compliance requirements over debt service expenditures. We tested the accuracy of all debt service expenditures.

Other Expenditures

This part of the audit focused on nonpayroll expenditures other than grants, loan disbursements, payments to the Giants Ridge management company, per diems and expense reimbursements, and debt service. We designed our work to address the following questions:

- Were the department's internal controls adequate to ensure it obtained and accurately paid for goods and services, and safeguarded assets, in compliance with applicable legal provisions?

- Did the department obtain and accurately pay for goods and services, and safeguard assets, in compliance with applicable legal provisions?

To answer these questions, we interviewed department staff to gain an understanding of the department's internal controls and compliance requirements over various nonpayroll expenditures. We tested all of the expenditures under building construction contracts and professional/technical services contracts. We also tested samples of asset purchases, and reviewed documentation for the department's most recent physical inventory of assets. In addition, we tested a sample of purchases with state purchasing cards. Finally, we tested samples of all of the other expenditures, and reviewed the use of the department's imprest cash account.

We conducted this performance audit in accordance with generally accepted government auditing standards.[11] 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 believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. When sampling was used, we used a sampling method that complies with generally accepted government auditing standards and supports our findings and conclusions. That method does not, however, allow us to project the results we obtained to the populations from which the samples were selected.

We assessed internal controls against the most recent edition of the internal control standards, published by the U.S. Government Accountability Office.[12] To identify legal compliance criteria for the activity we reviewed, we examined state laws, state administrative rules, state contracts, and policies and procedures established by the departments of Management and Budget and Administration.

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[11] Comptroller General of the United States, Government Accountability Office, *Government Auditing Standards* (Washington, DC, December 2011).

[12] Comptroller General of the United States, Government Accountability Office, *Standards for Internal Control in the Federal Government* (Washington, DC, September 2014). In September 2014, the State of Minnesota adopted these standards as its internal control framework for the executive branch.

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Grants

The department awards grants to provide financial assistance to businesses, local units of government, and nonprofit organizations within the taconite assistance area in northeastern Minnesota.[13] During the scope of the audit, the department had grant expenditures totaling $74,298,922.

Grant Awards and Grant Agreements

Department grants include competitive, noncompetitive, and legislatively-mandated grants. Competitive grants are awarded through a process where applicants are rated against selection criteria, and those with the highest ratings receive grants. Noncompetitive grants are awarded to eligible applicants based on the availability of funds. Legislatively-mandated grants are awarded as directed by state law.

During the scope of the audit, the department awarded 332 competitive grants, 113 noncompetitive grants, and 21 legislatively-mandated grants. We tested the awards and grant agreements for a random sample of 41 competitive, 22 noncompetitive, and 6 legislatively-mandated grants. We found no significant issues.

Grant Monitoring

Several state policies and procedures require agencies to monitor their grants. One policy states that agencies must require "grantees to submit written progress reports at least annually until all grant funds have been expended and all of the terms in the grant contract agreement have been met."[14] Another policy requires agencies to "conduct at least one monitoring visit before final payment is made on all state grants over $50,000 and to conduct at least annual monitoring visits on grants of over $250,000."[15] By policy, these monitoring visits may be conducted on-site or by telephone. That policy also requires agencies to "conduct a financial reconciliation of grantees' expenditures at least once on grants over $50,000 before final payment is made."[16] It defines financial reconciliations as "reconciling a grantee's request for payment for a given period with supporting documentation for that request, such as purchase orders, receipts and payroll records…."[17]

During the scope of the audit, the department made grant payments totaling $74,290,914 for 513 grants. We tested the payments and progress reports for a random sample of 43 grants and 6 additional grants selected based on our analysis. During the

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[13] *Minnesota Statutes* 2021, 273.1341, defines the taconite assistance area. See Exhibit 1 on page 5 for a map of the area.

[14] Department of Administration, Office of Grants Management, Statewide Operating Policy and Procedure 08-09, *Policy on Grant Progress Reports*, issued December 2008.

[15] Department of Administration, Office of Grants Management, Statewide Operating Policy and Procedure 08-10, *Policy on Grant Monitoring*, revised December 2016.

[16] *Ibid*.

[17] *Ibid*.

scope of the audit, the department closed 426 grants. We tested the department's monitoring activities for a random sample of 116 of those grants.

FINDING 1

The Department of Iron Range Resources and Rehabilitation did not always monitor grants as required by state policy.

The department did not conduct the required monitoring activities for some grants, as follows:

- The department did not require grantees to submit progress reports for five of the grants we tested, due to staff oversight.[18] The department relied solely on its grant administrators to request progress reports, and did not have sufficient controls to ensure those grant administrators requested the reports when required. Progress reports allow the department to identify any concerns about the grant achieving the desired outcome and to react accordingly.

- The department did not conduct monitoring visits before making the final payment for eight of the grants we tested, due to staff oversight.[19] For four of the grants, the documented monitoring visit occurred after the final payment. For the other four grants, no monitoring visit was documented. The department relied solely on its grant administrators to conduct monitoring visits, and did not have sufficient controls to ensure those grant administrators conducted the visits when required. As stated in the policy, "The purpose of grant monitoring visits is to review and ensure progress against the grant's goals, to address any problems or issues before the end of the grant period, and to build rapport…."[20]

- The department did not document the financial reconciliations conducted for 23 of the grants we tested.[21] The procedure for the policy states, "State agencies conduct and document monitoring visits and financial reconciliations. Documentation is kept in the grant file…." The department's procedures required conducting financial reconciliations for all grantee requests for payment for grants exceeding $50,000. The department also had a financial reconciliation spreadsheet template available for its grant administrators to use, but it did not require them to use the spreadsheet or otherwise document the reconciliations. Although the department told us it completed financial reconciliations for all grantee requests for payment, we could not validate because most were not documented.

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[18] Of the 49 grants for which we tested the payments and progress reports, the department did not require progress reports from 3 of them. Of the 116 closed grants we tested, we specifically tested the progress reports for 39 and found that the department did not require progress reports from 2 of them.

[19] Of the 116 closed grants we tested, we specifically tested the monitoring visits for 35 and found that the department did not have documented monitoring visits before the final payment for 8 of them.

[20] Department of Administration, Office of Grants Management, Statewide Operating Policy and Procedure 08-10, *Policy on Grant Monitoring*, revised December 2016.

[21] Of the 116 closed grants we tested, we specifically tested the financial reconciliations for 26 and found that the department did not have documented financial reconciliations for 23 of them.

After the scope of the audit, in May 2020, the department added a new procedure that required grant administrators to certify that they completed a financial reconciliation. That certification is required to be saved in the grant record as documentation that financial reconciliations were conducted. However, the use of the reconciliation spreadsheet is still optional.

In our opinion, financial reconciliations that do not utilize the spreadsheet or some other form of documentation are less effective than those that do. In our testing of grant payments, we found errors in grantee payment requests for two grants. For one grant, a payment request exceeded the actual expenses to be reimbursed by $3,000, and another payment request included $7,500 in expenses that were reimbursed on a previous payment request.[22] For the other grant, a payment request exceeded the actual expenses to be reimbursed by $10. In each instance, the financial reconciliation was not documented and did not identify and correct the error.

RECOMMENDATION

The Department of Iron Range Resources and Rehabilitation should strengthen internal controls over grants to ensure it effectively monitors grants as required by state policy.

General Fund Appropriation Grants

State law requires annual General Fund appropriations to the department for an amount equal to 1.5 cents on each taxable ton of taconite and iron sulphides produced in the preceding calendar year.[23] The law requires the department to use the appropriations for environmental development grants to Carlton and Koochiching counties, or for economic development loans or grants to businesses located within those counties.[24] The department allocated half of each annual appropriation to each county. In fiscal years 2018, 2019, and 2020, the department granted $244,433, $233,823, and $255,008, respectively, to Carlton County; $162,955, $155,882, and $170,005, respectively, to Koochiching County; and $81,478, $77,941, and $85,003, respectively, to the Koochiching County Economic Development Commission.[25]

FINDING 2

The Department of Iron Range Resources and Rehabilitation used a portion of the appropriations for Carlton and Koochiching counties on administrative costs without legal authority.

[22] The grantee identified the $3,000 error and corrected it by reducing a subsequent payment request by that amount. After we identified the $7,500 error, the department worked with the grantee and resolved it.

[23] *Minnesota Statutes* 2021, 298.17(b)(2).

[24] *Minnesota Statutes* 2021, 298.17(c).

[25] *Minnesota Statutes* 2021, 298.17(d), states, "Of the money allocated to Koochiching County, one-third must be paid to the Koochiching County Economic Development Commission."

The department used $14,000 from each annual appropriation for Carlton and Koochiching counties on administrative costs. The law establishing the appropriations specifies the allowable uses, which do not include any administrative costs. The department established the practice to use a portion of those appropriations for administrative costs several years ago, without realizing the law did not allow it. Every year since 2012, which was the year the state implemented the current accounting system, the department used $14,000 from each appropriation on administrative costs.[26] As a result, the amounts granted to Carlton County, Koochiching County, and the Koochiching County Economic Development Commission each year were reduced by $7,000, $4,667, and $2,333, respectively.

RECOMMENDATIONS

- **The Department of Iron Range Resources and Rehabilitation should stop using a portion of the appropriations for Carlton and Koochiching counties on administrative costs.**

- **The Department of Iron Range Resources and Rehabilitation should pay Carlton and Koochiching counties and the Koochiching County Economic Development Commission for the amounts of the appropriations inappropriately used on administrative costs.**

[26] We did not review data from the state's prior accounting system to identify amounts from the annual appropriations before 2012 that the department used on administrative costs.

Loans

The department provides loans to businesses and local units of government for economic development projects within the taconite assistance area in northeastern Minnesota.[27] Some loans are participation loans, where the department purchases a portion of a loan originating with a commercial bank or other regulated lender. Other loans are direct loans to the borrower.

Loan Disbursements

During the scope of the audit, the department approved 26 new loans, including 17 participation loans and 9 direct loans, with disbursements totaling $11,835,939.[28] The department also disbursed $2,453,679 for 5 loans, including 2 participation loans and 3 direct loans, approved prior to the scope of the audit. We tested the loan approvals and disbursements for a random sample of 5 of the 26 new loans, and the disbursements for a random sample of 2 of the 5 loans approved prior to the scope of the audit, and found no issues.

Loan Payment Collections

The department collects loan payments both electronically and via check. During the scope of the audit, the department collected $16,951,354 in loan payments, including $14,675,332 in principal and $2,276,022 in interest. Those loan payments were for 75 different loans. We tested all of the loan payments for a random sample of 12 of the 75 loans and found no significant issues.

Outstanding Loan Balances

The department maintains a computerized loans system to record its detailed loan information, including loan disbursements, payment due dates, payments collected, and outstanding balances. As of February 2020, the department had 78 outstanding loans with a total outstanding balance of $61,601,950.[29] Three of those loans, with a total outstanding balance of $879,410, were delinquent.

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[27] *Minnesota Statutes* 2021, 273.1341, defines the taconite assistance area. See Exhibit 1 on page 5 for a map of the area.

[28] The department did not disburse loan proceeds for one loan until after the scope of the audit.

[29] During the scope of the audit, the department collected payments for 61 of the 78 outstanding loans as of February 2020.

FINDING 3

The Department of Iron Range Resources and Rehabilitation did not always take appropriate actions to collect payments for delinquent loans.

The department did not have documentation of any collection efforts since June 2014 for one delinquent loan. The $225,000 direct loan originated in 2008, and the borrower paid $40,952 in principal through March 2012, but made no additional payments between April 2012 and February 2020 (the end of the scope of our audit). Between March 2012 and June 2014, the department had documentation of periodic e-mails sent to the borrower requesting a payment; however, it had no documentation of any subsequent communications or any other actions taken. Department staff told us communications with borrowers were typically via telephone, but that the calls were not documented. They also told us the borrower has struggled financially, and that the department has continually attempted to reach an amicable solution, but believes future collections are doubtful.

State policy requires agencies to send past-due invoices to delinquent borrowers each month until paid, or until the debt is referred to the Department of Revenue (DOR) for collection.[30] The policy also states that delinquent debt must be referred to DOR once it becomes 121 days past due, with exceptions for certain circumstances.[31] There was no evidence that the department considered referral to DOR or other potential actions, such as foreclosure.

The department had not established formal internal policies, as required by state policy, "that take all appropriate, fair, consistent, and cost-effective actions to collect [its] debt."[32] Establishing formal policies and procedures for collection actions on delinquent loans increases the likelihood of successful collection.

RECOMMENDATIONS

- **The Department of Iron Range Resources and Rehabilitation should take the appropriate actions on the delinquent loan and document those actions.**
- **The Department of Iron Range Resources and Rehabilitation should document all collection activities on delinquent loans.**
- **The Department of Iron Range Resources and Rehabilitation should establish formal policies and procedures for loan collections.**

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[30] Department of Management and Budget, Statewide Operating Policy 0504-01, *Debt Collection Process and Actions*, issued July 1, 2011, revised March 9, 2021.

[31] *Ibid.* The policy states, "Exceptions to referring debt occur when: An unresolved dispute over the validity of the debt exists; The debt is the subject of legal action or administrative proceedings; The debtor is making satisfactory progress on a payment agreement; or The debt is determined to be uncollectible."

[32] *Ibid*.

Giants Ridge

The department owns and operates Giants Ridge, which is a ski and golf complex located in Biwabik. During winter months, Giants Ridge offers alpine skiing and snowboarding, snow tubing, nordic skiing and snowshoeing trails, and fat tire biking trails. During summer months, Giants Ridge offers golf at two highly-ranked courses; mountain biking and hiking trails, including lift-served downhill trails; disc golf; and a climbing wall.

Giants Ridge Revenues

During the scope of the audit, the department received about $12.2 million from Giants Ridge sales. We tested a random sample of 25 of 3,639 deposit transactions recorded in the state's accounting system and found that the receipts were properly deposited and accurately recorded. Nearly one-third of the sales receipts were in cash or check, with the rest from credit cards. The department received a waiver from the Department of Management and Budget (MMB) to deposit Giants Ridge cash and check receipts less frequently than required by state law. The law requires daily deposits of receipts totaling $1,000 or more, but allows MMB to grant waivers for less frequent deposits if an agency can document "that the cost of making daily deposits exceeds the lost interest earnings and the risk of loss or theft of the receipts."[33]

FINDING 4

The Department of Iron Range Resources and Rehabilitation did not deposit Giants Ridge cash and check sales receipts in compliance with state law and the terms of the waiver authorized by the Department of Management and Budget.

The department received a waiver from MMB, effective from July 2017 through July 2019, to deposit Giants Ridge cash and check sales receipts twice per week. From July 2017 through March 2018, the department generally complied with that waiver.[34] However, from April 2018 through July 2019, the department deposited those receipts just once per week. The department changed its depositing procedures without requesting an amended waiver from MMB to authorize that change.

From August 2019 through February 2020, the department continued to deposit those receipts once per week without a waiver. State policy states, "Daily deposit waivers must be renewed biennially."[35] The department did not apply for a new waiver after the previous waiver expired, due to staff oversight. The department subsequently requested

[33] *Minnesota Statutes* 2021, 16A.275.

[34] The department made just one deposit in one week in September 2017, two weeks in November 2017, and one week in January 2018.

[35] Department of Management and Budget, Statewide Operating Policy 0602-01, *Recording and Depositing Receipts*, issued July 2011, revised June 2016.

a waiver to deposit those receipts once per week. MMB approved the waiver on April 17, 2020, effective through April 2022.

RECOMMENDATION

The Department of Iron Range Resources and Rehabilitation should strengthen internal controls over Giants Ridge cash and check sales receipts to ensure it deposits those receipts in compliance with state law and the terms of any waivers authorized by the Department of Management and Budget.

Giants Ridge Management Agreement

In March 2017, the department contracted with an outside management company to operate Giants Ridge. Under terms of the agreement, the department reimbursed the management company for its Giants Ridge operating expenses. The department also paid a management fee to the management company equal to 5 percent of monthly gross revenues. Finally, the department paid an annual incentive fee to the management company, equal to 20 percent of the savings, if the management company successfully reduced the Giants Ridge operational subsidy from expected levels.

During the scope of the audit, the department paid $20.7 million to the management company for operating expense reimbursements, management fees, and incentive fees. We tested a random sample of 21 of the 114 payments to the management company, and found that the payments were accurate and for reimbursable operating expenses. We also separately tested the annual incentive fees, which totaled $44,457 in Fiscal Year 2018 but was not earned in Fiscal Year 2019, and the total management fees in fiscal years 2018 and 2019, which totaled $239,171 and $184,992, respectively.[36] We found no significant issues.

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[36] The management fees paid in Fiscal Year 2020 during the scope of the audit totaled $152,275 on monthly gross revenues between July 2019 and January 2020.

Other Revenues

In addition to loan payments, Giants Ridge operating revenues, taconite and special local tax distributions, and interest earnings, the department collected $828,967 in other revenues during the scope of the audit. Those other revenues included $413,477 from lease, easement, and grant agreements. We verified that the department collected accurate amounts based on the terms of each agreement. Those revenues also included $65,076 from sales of surplus supplies and equipment. Of the 27 asset sales transactions, we tested a random sample of 6 transactions and 1 other transaction selected based on our analysis.

The remaining $350,414 of those revenues were from miscellaneous sources such as loan and legal fees, dividends, project proceeds, timber sales, county interest payments, and refunds. The department recorded those revenues with 101 separate deposit transactions in the state's accounting system.[37] We tested a random sample of 24 of those 101 transactions.

Loan payments and other revenues collected by the department include checks received and deposited by staff and electronic payments posted directly to its bank account. For check receipts, state policy states that "All state agencies should establish policies and procedures to ensure all receipts are properly safeguarded, deposited in a timely manner, and recorded completely and accurately in the state's accounting system…."[38]

FINDING 5 – PRIOR FINDING

The Department of Iron Range Resources and Rehabilitation did not develop certain procedures required by state policy for recording and depositing check receipts.

State policy states, "An employee separated from the receipting and receipts entry process should review and approve the daily deposits before the bank deposit is made."[39] The department did not have a separate employee review and approve the daily deposits. State policy also states, "An employee separated from the receipting, depositing, and receipts entry should reconcile the deposits to [the state's accounting system] on a minimum of a monthly basis to ensure receipts have been deposited completely and accurately…."[40] The department did not perform these reconciliations.

Department staff told us that those procedures had been performed in the past, but stopped for unknown reasons. Also, the department did not periodically compare its procedures to state policies to ensure compliance with those policies. The purpose of

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[37] The receipts recorded with those deposit transactions totaled $710,331, including $350,414 recorded as revenues and $359,917 recorded as expenditure reductions.

[38] Department of Management and Budget, Statewide Operating Policy 0602-01, *Recording and Depositing Receipts*, issued July 1, 2011, revised June 27, 2016.

[39] *Ibid*.

[40] *Ibid*.

the procedures required by state policy is to ensure that receipts are properly safeguarded to prevent loss or theft.

RECOMMENDATIONS

- **The Department of Iron Range Resources and Rehabilitation should develop the procedures required by state policy for recording and depositing check receipts.**

- **The Department of Iron Range Resources and Rehabilitation should periodically compare its procedures to state policies to ensure compliance with those policies.**

Payroll Expenditures

As of February 2020, the department employed 43 staff. During the scope of the audit, the department had $13,457,515 in payroll expenditures. Exhibit 3 shows the payroll expenditures by type.

Exhibit 3: Payroll Expenditures, July 1, 2017, through February 29, 2020

Type	Gross Pay	Employer Expenses[a]	Total
Hours Worked and Leave Taken[b]	$8,089,790	$2,857,153	$10,946,943
Retroactive Pay Rate Adjustments	69,919	20,327	90,246
Overtime Pay	53,294	6,973	60,267
Supplemental Pay[c]	18,977	2,270	21,247
Separation Pay[d]	1,242,529	821,236	2,063,765
Leave Conversions to Deferred Compensation	23,254	5,044	28,298
Other[e]	28	246,721	246,749
Totals	$9,497,791	$3,959,724	$13,457,515

[a] Includes the employer shares of FICA, retirement, and insurance.

[b] Gross pay for hours worked and leave taken includes $369,936 for holiday pay and $24,765 for paid parental leave, jury duty leave, and miscellaneous leave.

[c] Gross pay for supplemental pay includes $9,207 for equipment and shift differential pay, $5,312 for certain holiday and compensatory time payments, and $4,458 for mobile device and clothing allowances.

[d] Employer expenses for separation pay includes $68,056 for the employer shares of FICA, retirement, and insurance and $753,180 for health and dental insurance premiums for former employees that chose the early retirement incentive.

[e] Employer expenses for other expenditures includes $1,223 for the employer shares of FICA, retirement, and insurance, $60,500 paid to the Department of Employment and Economic Development for unemployment compensation, and $184,998 paid to the Department of Administration for workers' compensation. We did not audit these other payroll expenditures.

SOURCE: State of Minnesota's accounting system.

State Payroll System Access

The department utilizes the state's payroll system to process human resources and payroll transactions. The payroll system contains several different access profiles that allow assigned users to perform various functions. State policy defines incompatible payroll system access profiles, and states, "Incompatible access profiles are not permitted."[41]

[41] Department of Management and Budget, Statewide Operating Policy HR045, *SEMA4 Security*, issued April 2007.

FINDING 6 – PRIOR FINDING

The Department of Iron Range Resources and Rehabilitation assigned incompatible payroll system access profiles to an employee without compensating controls.

The department assigned incompatible payroll system access profiles to an employee, but did not design and perform compensating controls to limit the risk from the incompatibility. The incompatible profiles allowed the employee to update direct deposit, personal, and job data for department employees, which provided the opportunity to manipulate that data for personal gain.

The department told us that assigning the incompatible access was necessary due to the limited number of human resources and accounting staff. State policy states, "In cases where incompatible functions cannot be segregated, the agency must implement and maintain compensating controls."[42] For example, the department could have another staff person track and periodically review all updates to direct deposit, personal, and job data made by the employee to determine if appropriate. Department staff told us that they believed the risk from the incompatibility was limited because employees would notice any unauthorized data changes and notify the department. We disagree that relying on external parties as a compensating control is sufficient to effectively limit the risk from the incompatibility.

RECOMMENDATION

The Department of Iron Range Resources and Rehabilitation should remove the incompatible payroll system access profiles assigned to the employee, or design and perform effective compensating controls.

Employee Pay Rates

State employment agreements establish salary ranges for employee positions throughout state government. Under Minnesota Rules, individual departments have the authority to set the starting salaries for new employees within the range for a position up to certain limits.[43] To exceed those limits, departments must obtain approval from the Department of Management and Budget (MMB). During the scope of the audit, the department hired or rehired ten employees, including four with starting salaries that required MMB approval.

[42] Department of Management and Budget, Statewide Operating Policy 1101-07, *Security and Access*, issued December 2011.

[43] *Minnesota Rules*, 3900.2100, https://www.revisor.mn.gov/rules/3900.2100/, accessed January 2022.

FINDING 7

The Department of Iron Range Resources and Rehabilitation set the starting salary for one new employee at an amount that required Department of Management and Budget approval without obtaining that approval.

The department set the starting salary for one new employee at 21.58 percent above the minimum salary for the position without the approval of MMB. Minnesota Rules allow departments to set starting salaries up to 12.00 percent above the minimum salary for a position, but require MMB approval for starting salaries exceeding that limit.[44] The commissioner completed the employment offer letter that included the higher starting salary, but the department did not document the factors used to determine and justify that salary.

The day after extending the offer to the employee, the department submitted the offer letter and an appointment detail letter to MMB for review, but did not mention nor request approval for the higher starting salary. MMB responded, "These look good! You're good to go," which the department interpreted as an approval for the higher salary. After we questioned that interpretation during the audit, the department initiated a discussion with MMB. In its response, MMB explained that since the department did not request approval for the starting salary or provide any salary justification with its submission, MMB was not aware that the starting salary exceeded the department's authority and thus did not review or approve the salary as part of its review.

RECOMMENDATION

The Department of Iron Range Resources and Rehabilitation should strengthen internal controls over starting salaries for new employees to ensure it sets those salaries at amounts within its authority, or obtains approval from the Department of Management and Budget for salaries set at amounts exceeding its authority.

Pay Rate Increases

Employees receive periodic pay rate increases based on provisions in applicable employment agreements. During the scope of the audit, 58 employees received one or more pay rate increases. We tested all of the pay rate increases for a random sample of 6 employees and found no errors.

Pay rate increases are recorded in the state's payroll system with an effective date. If that effective date is within the current or a future pay period, the payroll system will calculate pay at the new rate starting on the effective date. If that effective date is in a prior pay period, a retroactive pay rate adjustment is paid to the employee. Some retroactive pay rate adjustments are calculated and processed centrally by MMB, such as when a biennial employment agreement is executed in the fall and includes a general pay rate increase effective the previous July 1 for all state employees covered by that

[44] *Minnesota Rules*, 3900.2100, https://www.revisor.mn.gov/rules/3900.2100/, accessed January 2022.

agreement. Other pay rate adjustments unique to the circumstances of an individual employee are calculated and processed by the employing department.

During the scope of the audit, the department paid retroactive pay rate adjustments totaling $69,919 to 61 employees. We initially tested the accuracy of those payments for a sample of 15 employees, and subsequently expanded testing for an additional 10 employees based on errors found in our initial sample.[45]

FINDING 8

The Department of Iron Range Resources and Rehabilitation overpaid two employees and underpaid one employee for retroactive pay rate adjustments.

The department overpaid retroactive pay rate adjustments to two employees by $257 and $34, respectively, and underpaid one employee by $91. The first overpayment and a portion of the second occurred because the department did not accurately incorporate other retroactive pay rate adjustments during the same time period into the calculations of the payments, as required by state policy.[46] The other portion of the second overpayment occurred because the department used the wrong effective date for the pay rate increase in its calculation. For the underpayment, the department inadvertently omitted from its calculation the hours for two pay periods during the time period covered by the retroactive payment. For each error, the department either did not perform a secondary review of the calculation, or the secondary review was not sufficient to identify and correct the error.

RECOMMENDATIONS

- **The Department of Iron Range Resources and Rehabilitation should correct the retroactive pay rate adjustment errors for each employee identified in error.**

- **The Department of Iron Range Resources and Rehabilitation should strengthen internal controls over retroactive pay rate adjustments to ensure the accuracy of those payments.**

Payroll Processing

State employees are paid biweekly. Department employees complete timesheets in the state's payroll system, and designated staff assigned by the department to each employee reviews and approves that employee's timesheet. During the scope of the

[45] Our initial sample included ten employees with individual retroactive pay rate adjustments calculated by the department, and we found errors for three of them. Our expanded testing doubled the number of employees with individual retroactive pay rate adjustments tested. We did not find any additional errors for those additional samples.

[46] Department of Management and Budget, Statewide Operating Policy PAY0025, *Pay Rate Adjustments*, issued April 2001.

audit, department employees completed 3,117 biweekly timesheets. We tested a random sample of 25 timesheets and found no issues.

The state's payroll system allows users to generate various reports to ensure the accuracy of payroll expenditures. State policy requires agencies to review certain reports each pay period.[47] We tested the department's review of those reports for a random sample of 7 of 69 pay periods and found no issues.

Overtime Pay

The employment contracts for most department employees include provisions that allow the employees to earn overtime. Overtime can be compensated in the form of cash added to employee paychecks, or compensatory time that can be used as paid time off in future pay periods. Depending on the employment contract and position held, employees earn overtime at either straight-time or at time and one-half.[48]

During the scope of the audit, the department paid $53,294 of overtime in cash and $27,562 of overtime as compensatory time to 29 employees. We tested the overtime compensation for a random sample of 7 employees and 9 additional employees that we selected based on our analysis.

FINDING 9

The Department of Iron Range Resources and Rehabilitation incorrectly compensated several employees for overtime.

The department overcompensated seven employees and undercompensated another for overtime, as follows:

- The department paid a total of $1,139 of overtime in cash to an employee that was not eligible for the overtime. The employment contract allowed for overtime when hours worked in a pay period exceeded 80, but did not allow paid vacation or sick leave hours to be considered hours worked.[49] For each of the six pay periods the employee earned overtime, the hours worked, excluding vacation and sick leave hours, were less than 80.

- The department provided 6.5 hours of compensatory time, valued at $289, to an employee that was not eligible for the overtime. The employment contract allowed for overtime when hours worked in a pay period exceeded 80, but only if the extra hours were for a special work assignment in addition to normal job

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[47] Department of Management and Budget, Statewide Operating Policy PAY0028, *Agency Verification of Payroll and Human Resources Transactions*, issued August 2011, requires agencies to review the payroll register and payroll posting audit trail reports. Department of Management and Budget, Statewide Operating Policy PAY0017, *Self Service Time Entry*, issued February 2011, requires agencies to review the Self Service Time Entry Audit Report.

[48] Straight-time means an employee's regular hourly pay rate. Time and one-half means an employee's regular hourly pay rate times 1.5.

[49] Middle Management Association Agreement, 2017-2019, art. 11, sec. 2.

duties.[50] The department could not provide any evidence that the extra hours were for a special work assignment.

- For a portion of the overtime earned by five employees, the department compensated the employees at time and one-half when the employment contract required compensation at straight-time. The department overcompensated those employees by a total of $621, including $188 paid in cash and 14 hours of compensatory time valued at $433.

  In eight pay periods, the department compensated one of those employees for overtime at time and one-half for all hours exceeding 40 in a week. However, the employment contract only allowed for overtime at time and one-half when hours in a week, excluding paid time off, exceeded 40 hours.[51]

  In one other pay period, the department compensated one of those employees for overtime at time and one-half for all hours, excluding paid time off, exceeding 40 hours in a week. However, the employee moved into a new position prior to that pay period, and the employment contract only allowed for overtime at straight-time for that new position.[52]

- In two pay periods, the department undercompensated one employee by $100 for overtime at straight-time, when the employment contract required the compensation at time and one-half.[53] In a subsequent pay period, the department adjusted the employee's hours but inadvertently recorded three too many hours as compensatory time at time and one-half and three too few hours as regular hours worked. As a result, the department overcompensated the employee by $38. The net effect of the three errors was that the department undercompensated the employee by $62.

The underlying cause of these errors was a general misunderstanding of the overtime requirements that applied to each employee, as some employment contracts contained different requirements for different employees. This misunderstanding made the supervisory review and approval of overtime ineffective.

RECOMMENDATIONS

- **The Department of Iron Range Resources and Rehabilitation should correct the overtime compensation errors for each employee identified in error.**
- **The Department of Iron Range Resources and Rehabilitation should strengthen internal controls regarding overtime to ensure only eligible employees are compensated and for accurate amounts.**

[50] Minnesota Association of Professional Employees Agreement, 2017-2019, art. 27, sec. 3.

[51] Minnesota Association of Professional Employees Agreements, 2017-2019 and 2019-2021, art. 27, sec. 2.

[52] Minnesota Association of Professional Employees Agreement, 2017-2019, art. 27, sec. 3.

[53] *Ibid*., art. 27, sec. 2.

Supplemental Pay

Supplemental pay during the scope of the audit included $9,207 for equipment and shift differential pay. Equipment differential pay is additional compensation for operating heavy equipment, paid at rates ranging from $0.55 to $1.50 per hour.[54] Shift differential pay is additional compensation for working a shift that starts before 6:00 a.m. or ends after 7:00 p.m., paid at $0.65 per hour for all hours worked on that shift.[55] We tested a random sample of 58 of 250 equipment and shift differential payments and found no significant issues.

Supplemental pay also included $5,312 for certain holiday and compensatory time payments. Some employment contracts included provisions that required the department to make lump sum payments each September for any unused compensatory time balance.[56] Those contracts also included provisions for lump sum payments for any hours worked on a holiday, which were paid in addition to holiday pay. We tested all of these payments and found no issues.

Finally, supplemental pay included $4,458 for mobile device and clothing allowances. The Managerial Plan employment contract provides for a mobile device allowance of $16 per pay period to employees using both their personal voice and data cell phone service for department business.[57] State policy provides for a biennial clothing allowance of $125 for safety footwear to employees required to wear safety footwear for their jobs.[58] We tested all the mobile device and clothing allowances and found no issues.

Separation Pay

Upon separation from state service, employees may be eligible to receive various types of separation payments. All employees receive payments for unused vacation leave and compensatory time, up to limits established in the applicable employment agreement. Employees that meet certain eligibility requirements related to age and years of service also receive severance payments for a percentage of unused sick leave. In 2017, the Legislature authorized the department to offer a voluntary early retirement incentive to employees meeting certain eligibility requirements.[59] That incentive was available to employees through the end of Fiscal Year 2018.

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[54] American Federation of State, County and Municipal Employees Agreement, 2017-2019, appendix F, sec. 2.

[55] American Federation of State, County and Municipal Employees Agreement, 2017-2019, art. 18, sec. 7.

[56] American Federation of State, County and Municipal Employees Agreement, 2017-2019, appendix S; Minnesota Association of Professional Employees Agreement, 2017-2019, appendix G; and Commissioner's Plan, 2017-2019, ch. 2.

[57] Managerial Plan, 2017-2019, ch. 14.

[58] Department of Management and Budget, Human Resources/Labor Relations Policy #1410, *Reimbursement for Safety Footwear*, issued January 16, 2009, revised March 10, 2015.

[59] *Laws of Minnesota* 2017, chapter 94, art. 7, sec. 58.

During the scope of the audit, the department made $1,242,529 in separation payments to 20 former employees, including 14 that chose the early retirement incentive. The department also paid $753,180 in health and dental insurance premiums for the former employees that chose the early retirement incentive. We tested the accuracy of and eligibility for all separation payments.

FINDING 10

The Department of Iron Range Resources and Rehabilitation overpaid severance to a former employee.

The department overpaid severance to a former employee by $20,867. The employee originally retired in June 2018 and received separation payments totaling $165,767, including $11,514 for unused vacation leave, $54,906 in severance, and $99,347 for the early retirement incentive. The department subsequently rehired the employee in August 2018 and restored the portion of the unused sick leave not paid in severance. The employee retired again in August 2019 and received a severance payment of $21,502. That payment was for 35 percent of the unused sick leave, including the restored amount; however, the employment agreement required the restored sick leave to be omitted from the severance calculation.[60] The severance payment should have been $635.

The department employee that calculated the severance overlooked the requirement to omit the restored sick leave from the calculation, and there was no evidence of any secondary review.

RECOMMENDATIONS

- **The Department of Iron Range Resources and Rehabilitation should collect the overpaid severance from the former employee.**
- **The Department of Iron Range Resources and Rehabilitation should strengthen internal controls over severance payments to ensure the accuracy of severance calculations in compliance with applicable employment agreement provisions.**

[60] Minnesota Association of Professional Employees Agreement, 2019-2021, art.13, sec. 1.

Per Diems and Expense Reimbursements

The department reimburses employees, advisory board members, and technical advisory committee members for valid business expenses. During the scope of the audit, the department reimbursed employees for business expenses totaling $178,752, and board and committee members for business expenses totaling $12,921. The board and committee members' expense reports also included per diems totaling $13,302. All board members are legislators and thus receive per diems at the rates established by the Minnesota Senate and the Minnesota House of Representatives, which were $86 and $66, respectively.[61] Committee members that were not legislators received per diems at the $55 rate established in state law.[62]

Employees input expense report data directly into the state's payroll system and upload any receipts required to support claimed expenses into the system. In the payroll system, an employee's direct supervisor is assigned as the primary approver of that employee's timesheets and expense reports; backup approvers may also be assigned. The payroll system allows users to generate the Self Service Business Expense Audit Report each pay period, which identifies expense reports not personally completed by the employee or approved by a backup instead of the primary approver.

FINDING 11

The Department of Iron Range Resources and Rehabilitation did not review the Self Service Business Expense Audit Report.

The department did not review the Self Service Business Expense Audit Report, as required by state policy.[63] Expense reports completed by someone other than the employee or approved by backup instead of primary approvers are more likely to contain errors. The Self Service Business Expense Audit Report provides information that allows the department to identify and monitor those expense reports to ensure the accuracy of the reimbursements. Department staff told us that they were not aware of the requirement to review the report.

RECOMMENDATION

The Department of Iron Range Resources and Rehabilitation should review the Self Service Business Expense Audit Report as required by state policy.

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[61] Minnesota Senate, Committee on Rules and Administration, Resolution CR001-1, adopted January 2011. Minnesota House of Representatives, Committee on Rules and Legislative Administration, Resolution 2017-R3, adopted January 2017; and Resolution 2019-R3, adopted January 2019.

[62] *Minnesota Statutes* 2021, 15.059, subd. 3.

[63] Department of Management and Budget, Statewide Operating Policy PAY0049, *Self Service Business Expense*, issued February 2011.

We tested the expense reimbursements to employees for a random sample of 42 of the 614 expense reports. We also tested the expense reimbursements and per diems to board and committee members for 31 of the 189 expense reports, including 18 selected randomly and 13 selected based on our analysis.

FINDING 12

The Department of Iron Range Resources and Rehabilitation overpaid several advisory board and technical advisory committee members for mileage reimbursements.

The department overpaid five board members and one committee member by a total of $410 for mileage reimbursements, with the overpayment to each member ranging from $7.49 to $146.91. Those overpayments occurred on 58 separate expense reports.[64] All of the errors for five members were for trips between the member's home or work and the department's office in Eveleth. For the other member, there was a single error for a trip between the member's home and the Minneapolis-Saint Paul International Airport.

In all instances, the miles reimbursed were not the most direct route. State policy and state law limit mileage reimbursements to the miles using the most direct route.[65] The actual miles reimbursed reflected the members' preferred routes, not the shortest. Members may choose to take any route they wish, but they can only be reimbursed for the shortest route. For the five members with overpaid mileage for trips between home or work and the department, the incorrect number of miles reimbursed was the same on all expense reports. Once the department established the number of miles between home or work and the department for each member, it reimbursed the members for that number of miles on subsequent reimbursement requests without revalidating the accuracy of those miles.

RECOMMENDATIONS

- **The Department of Iron Range Resources and Rehabilitation should correct the mileage reimbursement errors for each board and committee member identified in error.**

- **The Department of Iron Range Resources and Rehabilitation should strengthen internal controls over mileage reimbursements to ensure it limits reimbursements to the miles for the most direct route.**

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[64] After we found mileage reimbursement overpayments in 7 of the 31 expense reports we initially tested, we randomly selected 11 additional expense reports and found mileage reimbursement overpayments in 7 of them. We subsequently tested all of the mileage reimbursements for the 6 members with overpayments. Of the 78 expense reports for those 6 members that included mileage reimbursements, 58 had mileage overpayments.

[65] Department of Management and Budget, Statewide Operating Policy PAY0021, *Employee Business/Travel Expenses*, updated February 2019. *Minnesota Statutes* 2021, 15.059, subd. 3, states that expense reimbursements to committee members must follow the requirements in the Commissioner's Plan employment contract, which follows state policy for mileage reimbursements. *Minnesota Statutes* 2021, 3.099, subd. 1, states that legislators may receive mileage reimbursements as authorized by the Minnesota Senate and Minnesota House of Representatives. The policy for each chamber mirrors state policy.

Debt Service and Other Expenditures

In addition to grants, loan disbursements, payments to the Giants Ridge management company, payroll, and per diems and expense reimbursements, the department had $11,261,485 in debt service expenditures and $15,483,798 in other expenditures during the scope of the audit. Exhibit 4 shows the debt service and other expenditures by type.

Exhibit 4: Debt Service and Other Expenditures, July 1, 2017, through February 29, 2020

Type	Amount
Debt Service – Principal	$ 7,955,000
Debt Service – Interest	3,306,485
Building Construction and Professional/Technical Services Contracts	6,335,089
Assets[a]	987,564
Purchases with State Purchasing Cards	385,231
Statewide Indirect Costs[b]	358,276
All Other Expenditures[c]	7,417,638
Total	$26,745,283

[a] Includes $1,034,478 for asset purchases and $46,914 recorded as expenditure reductions for asset sales.

[b] Includes indirect costs paid to the Department of Management and Budget and the Attorney General's Office. We did not audit these expenditures.

[c] Includes rent, utilities, printing and advertising, computer services, communications, travel, employee development, supplies, equipment rental, repairs and maintenance, and other purchased services.

SOURCE: State of Minnesota's accounting system.

Debt Service

In October 2013, the department issued $37,830,000 in educational facilities revenue bonds Series 2013. In September 2014, the department issued $7,860,000 in educational facilities refunding revenue bonds Series 2014. As of February 2020, the outstanding principal balance for the Series 2013 bonds was $29,000,000, and the outstanding principal balance for the Series 2014 bonds was $2,410,000. We tested all the debt service expenditures and found no issues.

Building Construction and Professional/Technical Services Contracts

During the scope of the audit, the department paid $5,910,785 to four vendors under building construction contracts and $424,304 to seven vendors under professional/technical contracts. We tested all of those expenditures and found no issues.

Assets

During the scope of the audit, the department had 48 expenditures totaling $1,034,478 for various types of assets, including land and equipment. We tested a random sample of 9 of those expenditures, and 1 additional expenditure selected based on our analysis, and found no issues.

Inventory of Assets

The department maintains assets, including both capital assets and sensitive items, needed for its various operational activities. The majority of those assets are items needed to operate Giants Ridge. Capital assets are items with "a normal useful life expectancy exceeding two years…[that] maintains its identity while in use."[66] Sensitive items are items "that could be easily sold and are most often subject to pilferage or misuse."[67]

State policy requires agencies to maintain complete and accurate inventory records and to record all capital assets in the state's accounting system.[68] Agencies may record sensitive items in the state's accounting system or in a different system. The policy also states, "Complete physical inventories for capital assets and sensitive items must be conducted, at a minimum, biennially."[69]

During the scope of the audit, the department conducted a complete physical inventory in June 2019. We reviewed the documentation of that physical inventory, which included an asset list with 583 items.

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[66] Department of Administration, *Property Management Reporting and Accountability Policy*, issued May 1, 2014. Capital assets include land, buildings, equipment with an acquisition cost of $5,000 or more, infrastructure, art and historical treasures with an acquisition cost of $5,000 or more, and purchased software with an acquisition cost of $30,000 or more.

[67] *Ibid*. Sensitive items include firearms and other weapons, computers, portable printers, scanners, projectors, cellular phones, software with an acquisition cost between $5,000 and $30,000, and video equipment with an acquisition cost between $500 and $5,000.

[68] *Ibid*.

[69] *Ibid*.

FINDING 13

The Department of Iron Range Resources and Rehabilitation did not manage its assets in compliance with state policy.

The department did not record all of its capital assets in the state's accounting system. Of the 583 items on the department's physical inventory asset list, 330 were from a report of assets recorded in the state's accounting system. The remaining 253 items were on manually prepared pages. Of those 253 items, 176 had sufficient data on the asset list to determine whether they were capital assets or sensitive items. We determined that 131 of those items were capital assets and found that just 2 of them were recorded in the state's accounting system. Most of the capital assets not recorded in the state's accounting system were fully depreciated when the system was implemented in Fiscal Year 2012. At that time, the department decided not to record those assets in the system.

In addition, the department did not sufficiently document the results of its physical inventory of assets. Of the 583 items on the department's physical inventory asset list, there was no evidence that the department either located or validated the disposal of 138 items. For a randomly selected sample of 40 items from the physical inventory list, including 7 with no evidence of the inventory results, we requested evidence that the department either still had custody of or had disposed of the asset. We found that 2 of the 7 items had been disposed, but the department did not update the asset inventory records to reflect the disposal.

Inaccurate asset inventory records increase the risk of assets being misappropriated without detection. Maintaining manual asset inventory records for some capital assets increases the risk of inaccurate asset inventory records. In addition, conducting periodic complete physical inventories of assets, documenting the results of those inventories, and updating asset inventory records based on those documented results is necessary to ensure the accuracy of asset inventory records.

RECOMMENDATIONS

- **The Department of Iron Range Resources and Rehabilitation should record all of its capital assets in the state's accounting system.**
- **The Department of Iron Range Resources and Rehabilitation should strengthen internal controls over assets to ensure it sufficiently documents the results of physical inventories of assets, and accurately updates asset inventory records based on those results.**

Purchases with State Purchasing Cards

The department utilized state purchasing cards to pay for certain goods and services, the most common of which were airfare and hotel costs for employees traveling on state business. State policy establishes guidelines for the use of state purchasing cards, including permissible and prohibited uses; maximum amounts for individual transactions ($5,000) and total transactions in a billing cycle ($20,000); and recordkeeping requirements.[70] U.S. Bank provides the state purchasing cards and invoices each participating state agency monthly.

During the scope of the audit, the department used state purchasing cards for $385,231 in expenses. We tested all of the state purchasing card activity for a random sample of 5 of the 32 months in the scope of the audit, and found that the department complied with state policy for the use of the cards and recordkeeping requirements.

During the scope of the audit, eight department employees had state purchasing cards. State policy requires cardholders to sign a use agreement every three years and receive refresher training on card use.[71]

FINDING 14

The Department of Iron Range Resources and Rehabilitation did not require cardholders of state purchasing cards to sign use agreements every three years.

The department did not require any of its state purchasing cardholders with expired use agreements to sign new agreements. As of May 2020, six of the eight cardholders had use agreements that expired from two months to three years prior. The other two cardholders had use agreements set to expire in October 2020. Department staff told us they did not initiate new agreements with the cardholders because they were not aware of the requirement for new agreements every three years. State policy explains the purpose of the requirement, stating, “Signing every three years validates the continued need for the purchasing card and allows for refresher training.”[72]

RECOMMENDATIONS

- **The Department of Iron Range Resources and Rehabilitation should require the cardholders identified with expired agreements to sign new use agreements.**
- **The Department of Iron Range Resources and Rehabilitation should strengthen internal controls over state purchasing cards to ensure each cardholder signs new use agreements every three years.**

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[70] Department of Administration, Office of State Procurement, *Purchasing Card Use Policy 1b*, effective November 1, 2013.

[71] Department of Administration, Office of State Procurement, *Purchasing Card Use Policy 1b*, section 2.41, effective November 1, 2013.

[72] *Ibid*.

All Other Expenditures

During the scope of the audit, the department had 3,694 expenditures totaling $7,765,266 for the various types of expenditures noted in Exhibit 4. We tested a random sample of 29 of those expenditures, and 10 additional expenditures selected based on our analysis, and found no significant issues. The department also collected $48,281 in refunds and reimbursements, which were recorded as expenditure reductions in the state's accounting system. We tested a random sample of 5 of the 47 transactions and found no issues. Finally, the department recorded $299,347 in expenditure reductions for certain Giants Ridge operating activities. We analyzed those transactions and found no issues.

Imprest Cash Account

The department maintained an imprest cash bank account, approved by the Department of Management and Budget, with a balance of $10,000.[73] As defined by state policy, "Imprest Cash is the designation given to cash advanced from the state treasury to an agency where a fixed balance is maintained by regular replenishments and used for authorized disbursements."[74] Allowable uses of the account include minor disbursements for emergency purchases, employee travel advances, making change when collecting cash for services or sales, and compensating employees when pay was not received through the payroll system.[75] Improper uses of the account include loans to an individual for personal use, cashing personal checks, employee travel reimbursements and relocation expenses, payments subject to Federal Form 1099 reporting, and payments for repetitive business that should be paid through the state's accounting system.[76]

During the scope of the audit, the department used the account 15 times to pay expenses totaling $13,361. The department also used the account to establish a $200 cash drawer for change at a garage sale of surplus supplies and equipment. We reviewed the documentation for all of that activity.

FINDING 15

The Department of Iron Range Resources and Rehabilitation did not manage its imprest cash account in compliance with state policy.

The department did not separate duties related to its imprest cash account and did not develop sufficient compensating controls. One employee maintained custody of and wrote the checks for the account, recorded transactions in the state's accounting system to replenish the account, and received and reconciled the bank statements for the account.

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[73] The entire balance was kept in the bank; no cash was kept on hand.

[74] Department of Management and Budget, Statewide Operating Policy 0606-01, *Imprest Cash Accounts*, issued April 14, 2014.

[75] *Ibid*.

[76] *Ibid*.

The department believed it had sufficient compensating controls to mitigate the risk from the lack of separation of duties; we disagree. One such control was a requirement for a second employee to sign all checks. In our opinion, that control was not sufficient to prevent checks written for improper purposes. The checks had just a single signature line, and the control relies on the bank to only accept checks with two signatures on that one line. Alternatively, a second signature could be forged. Since the department retained photocopies of all checks, examples of second signatures were readily available.

Another control was a requirement for budget managers to review all recorded expenditures monthly and certify the legitimacy of those expenditures. That control would only be effective to identify a check written for improper purposes if a corresponding transaction in the state's accounting system was recorded to replenish the account. It would not identify a check written for personal use with a subsequent personal deposit to replenish the account. In contrast, an effective compensating control would be a reconciliation of the monthly bank statements to the imprest cash account checkbook and other supporting documentation performed or reviewed by a second employee.

The department also used the imprest cash account to pay the annual $1,200 fee to the Department of Public Safety for the Minnesota Discovery Center's liquor license.[77] The department renewed the license three times during the scope of the audit. An annual fee is an example of a payment for repetitive business that, according to state policy, should be paid through the state's accounting system instead of from the imprest cash account.[78]

RECOMMENDATIONS

- **The Department of Iron Range Resources and Rehabilitation should strengthen internal controls over its imprest cash account to ensure the account is only used for allowable purposes.**

- **The Department of Iron Range Resources and Rehabilitation should pay the annual fee for the Minnesota Discovery Center's liquor license through the state's accounting system.**

[77] In 2007, the department executed a sublease agreement with a nonprofit corporation to manage and operate the Minnesota Discovery Center, which contains a restaurant. Under the terms of the agreement, the department provides an annual operating subsidy to the nonprofit corporation and maintains property insurance on the premises. The department also continued to pay for the annual liquor license, as allowed by *Minnesota Statutes* 2021, 340A.404, subd. 4a.

[78] Department of Management and Budget, Statewide Operating Policy 0606-01, *Imprest Cash Accounts*, issued April 14, 2014.

List of Recommendations

- The Department of Iron Range Resources and Rehabilitation should strengthen internal controls over grants to ensure it effectively monitors grants as required by state policy. (p. 17)
- The Department of Iron Range Resources and Rehabilitation should stop using a portion of the appropriations for Carlton and Koochiching counties on administrative costs. (p. 18)
- The Department of Iron Range Resources and Rehabilitation should pay Carlton and Koochiching counties and the Koochiching County Economic Development Commission for the amounts of the appropriations inappropriately used on administrative costs. (p. 18)
- The Department of Iron Range Resources and Rehabilitation should take the appropriate actions on the delinquent loan and document those actions. (p. 20)
- The Department of Iron Range Resources and Rehabilitation should document all collection activities on delinquent loans. (p. 20)
- The Department of Iron Range Resources and Rehabilitation should establish formal policies and procedures for loan collections. (p. 20)
- The Department of Iron Range Resources and Rehabilitation should strengthen internal controls over Giants Ridge cash and check sales receipts to ensure it deposits those receipts in compliance with state law and the terms of any waivers authorized by the Department of Management and Budget. (p. 22)
- The Department of Iron Range Resources and Rehabilitation should develop the procedures required by state policy for recording and depositing check receipts. (p. 24)
- The Department of Iron Range Resources and Rehabilitation should periodically compare its procedures to state policies to ensure compliance with those policies. (p. 24)
- The Department of Iron Range Resources and Rehabilitation should remove the incompatible payroll system access profiles assigned to the employee, or design and perform effective compensating controls. (p. 26)
- The Department of Iron Range Resources and Rehabilitation should strengthen internal controls over starting salaries for new employees to ensure it sets those salaries at amounts within its authority, or obtains approval from the Department of Management and Budget for salaries set at amounts exceeding its authority. (p. 27)
- The Department of Iron Range Resources and Rehabilitation should correct the retroactive pay rate adjustment errors for each employee identified in error. (p. 28)
- The Department of Iron Range Resources and Rehabilitation should strengthen internal controls over retroactive pay rate adjustments to ensure the accuracy of those payments. (p. 28)
- The Department of Iron Range Resources and Rehabilitation should correct the overtime compensation errors for each employee identified in error. (p. 30)

- The Department of Iron Range Resources and Rehabilitation should strengthen internal controls regarding overtime to ensure only eligible employees are compensated and for accurate amounts. (p. 30)
- The Department of Iron Range Resources and Rehabilitation should collect the overpaid severance from the former employee. (p. 32)
- The Department of Iron Range Resources and Rehabilitation should strengthen internal controls over severance payments to ensure the accuracy of severance calculations in compliance with applicable employment agreement provisions. (p. 32)
- The Department of Iron Range Resources and Rehabilitation should review the Self Service Business Expense Audit Report as required by state policy. (p. 33)
- The Department of Iron Range Resources and Rehabilitation should correct the mileage reimbursement errors for each board and committee member identified in error. (p. 34)
- The Department of Iron Range Resources and Rehabilitation should strengthen internal controls over mileage reimbursements to ensure it limits reimbursements to the miles for the most direct route. (p. 34)
- The Department of Iron Range Resources and Rehabilitation should record all of its capital assets in the state's accounting system. (p. 37)
- The Department of Iron Range Resources and Rehabilitation should strengthen internal controls over assets to ensure it sufficiently documents the results of physical inventories of assets, and accurately updates asset inventory records based on those results. (p. 37)
- The Department of Iron Range Resources and Rehabilitation should require the cardholders identified with expired agreements to sign new use agreements. (p. 38)
- The Department of Iron Range Resources and Rehabilitation should strengthen internal controls over state purchasing cards to ensure each cardholder signs new use agreements every three years. (p. 38)
- The Department of Iron Range Resources and Rehabilitation should strengthen internal controls over its imprest cash account to ensure the account is only used for allowable purposes. (p. 40)
- The Department of Iron Range Resources and Rehabilitation should pay the annual fee for the Minnesota Discovery Center's liquor license through the state's accounting system. (p. 40)

DEPARTMENT OF IRON RANGE RESOURCES & REHABILITATION

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May 26, 2022

Judy Randall
Legislative Auditor
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658 Cedar Street
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Dear Ms. Randall:

Thank you for the opportunity to review and comment on the Office of Legislative Auditor's performance audit of the Department of Iron Range Resources and Rehabilitation (IRRR). A very comprehensive overview of the agency's business practices and operations was conducted by your office over the course of almost two years. We truly appreciate the work and professionalism of your staff during the time of their audit field work, which was performed during the COVID pandemic, a very difficult and challenging period for all of us.

Although there were more findings in the report than I would have liked, it was also encouraging that the audit did not indicate the agency had engaged in any conduct that led to fraud, waste or abuse of agency assets, which is important given that the IRRR was responsible for managing over $164 million in revenues and over $149 million in expenditures during the scope of the audit period.

During my tenure as IRRR Commissioner, the agency has been engaged in making continuous improvements in its operating practices and processes. Through the implementation of incremental changes, we have taken some real strides to improve the organization. One good example is the ongoing development of the agency's grant management system, which has become a model system for other state agencies and has been held up as such by the Department of Administration's Office of Grants Management.

I believe most of the audit findings and recommendations are helpful and support our work to make continuous improvements. I am pleased to inform you that the agency has already implemented most of the audit recommendations and that almost all of the findings have already been resolved. Following are the IRRR's specific responses to the audit findings cited in the performance audit report:

1. **Finding: The Department of Iron Range Resources and Rehabilitation did not always monitor grants as required by state policy.**

   In 2017 the agency began implementing a grants management tracking system known as "Fluxx" to ensure all grant administrators follow the state's recommended policies and procedures when awarding and monitoring grants. The finding led to the implementation of new fields in the Fluxx system tied to grant monitoring. The grant monitoring fields were fully implemented in October of 2020 and this finding has been resolved.

2. **Finding: The Department of Iron Range Resources and Rehabilitation used a portion of the appropriations for Carlton and Koochiching counties on administrative costs without legal authority.**

In the past the agency had administrative responsibility for the occupation tax grants that went to Carlton and Koochiching counties, and therefore an amount of grant money was withheld to cover the agency's administrative costs associated with such administration. The grants eventually became pass-through obligations only, but administrative costs continued to be withheld. Beginning in state fiscal year 2021 the agency discontinued withholding administrative costs and has budgeted $70,000 this year to repay Carlton and Koochiching counties for amounts withheld for administrative costs for state fiscal years 2016-2020. This finding has been resolved.

3. **Finding: The Department of Iron Range Resources and Rehabilitation did not always take appropriate actions to collect payments for delinquent loans.**

   Although the agency does generally monitor and follow up on delinquent loans in a responsible manner, including management of the sometimes conflicting objectives of protecting the financial interests of the State while balancing the mission of the IRRR to increase economic activity within the Taconite Assistance Area, better documentation and improved systematic review of delinquent loan files would be good improvements. The agency is in the process of reviewing and updating its Loan Administration Policy to address the issues identified in this finding. Matt Sjoberg, the agency's Executive Director of Development, is responsible for resolving this finding and we anticipate having improvements in place before the end of 2022.

4. **Finding: The Department of Iron Range Resources and Rehabilitation did not deposit Giants Ridge cash and check sales receipts in compliance with state law and the terms of the waiver authorized by the Department of Management and Budget.**

   A waiver from Minn. Stat. Sec. 16A.275 was obtained from the Minnesota Department of Management and Budget (MMB) to authorize weekly deposits of Giants Ridge funds. The waiver is effective until March 31, 2024; therefore, this finding has been resolved.

5. **Prior Finding: The Department of Iron Range Resources and Rehabilitation did not develop certain procedures required by state policy for recording and depositing check receipts.**

   The agency developed a new procedure to respond to this finding by assigning an employee with no other cash receipt role to reconcile cash receipts, bank deposit slips and SWIFT system entries. This new procedure was implemented on July 1, 2020, and this finding is resolved.

6. **Prior Finding: The Department of Iron Range Resources and Rehabilitation assigned incompatible payroll system access profiles to an employee without compensating controls.**

   A new procedure has been developed. The human resources department no longer has an employee with direct deposit security rights in the SWIFT system; an employee on the financial operations team now performs the conflicting task. The new procedure was implemented on July 1, 2020, and this finding has been resolved.

7. **Finding: The Department of Iron Range Resources and Rehabilitation set the starting salary for one new employee at an amount that required Department of Management and Budget approval without obtaining that approval.**

   A new procedure has been developed that requires the agency's human resources department to confirm with MMB and document that all starting salaries offered to successful job candidates comply with authorized state compensation policies. This finding has been resolved.

8. **Finding: The Department of Iron Range Resources and Rehabilitation overpaid two employees and underpaid one employee for retroactive pay rate adjustments.**

9. **Finding: The Department of Iron Range Resources and Rehabilitation incorrectly compensated several employees for overtime.**

10. **Finding: The Department of Iron Range Resources and Rehabilitation overpaid severance to a former employee.**

Findings 8, 9 and 10 are closely related and therefore will be addressed together.

All three of these findings are the result of misunderstanding the complexities associated with the various bargaining unit agreements, the unrepresented employee plans and various MMB policies. A new procedure to ensure accurate calculations of such anomaly payments has been developed that requires written verification of all irregular payments by two agency employees and documentation of consultations with MMB should they occur. In addition, the agency has worked with MMB to conduct all-staff training on overtime and compensatory time eligibility and proper time and pay code entries, and going forward the agency will periodically conduct refresher training on these matters. All three of these findings have been resolved through the provision of training and the implementation of the new procedure.

11. **Finding: The Department of Iron Range Resources and Rehabilitation did not review the Self Service Business Expense Audit Report.**

Since being made aware of this report by OLA staff, it has been regularly reviewed and incorporated into the agency's financial operations process. This finding has been resolved.

12. **Finding: The Department of Iron Range Resources and Rehabilitation overpaid several advisory board and technical advisory committee members for mileage reimbursements.**

Although the amount of mileage reimbursement overpayments were not very significant (less than two percent of total mileage expense reimbursements paid during the audit testing period), agency staff now verifies mileage reimbursement requests by running Google Maps or Mapquest trip finder applications and documenting the shortest route between the destinations, which is the maximum distance permitted for the mileage reimbursement. This finding has been resolved.

13. **Finding: The Department of Iron Range Resources and Rehabilitation did not manage its assets in compliance with state policy.**

To the extent this finding implies that capital or physical assets were misappropriated or subject to theft, the agency does not agree. However, accurate documentation of capital and physical assets, including removing assets from inventory lists when they have been fully depreciated or are no longer in use, is an ongoing process that the agency has been working to improve for several years. The agency should finally be able to reconcile many inventory asset lists to the SWIFT asset management system before the next scheduled inventory count in state fiscal year 2024, at which time this finding will be resolved. Dave Kallio, Accounting Officer Principal, is the person responsible for resolving this finding.

14. **Finding: The Department of Iron Range Resources and Rehabilitation did not require cardholders of state purchasing cards to sign agreements every three years.**

All agency staff with purchasing cards now have updated use agreements. A notification system has been developed and implemented for all purchasing card users to ensure use agreements will be renewed before they expire. This finding has been resolved.

15. **Finding: The Department of Iron Range Resources and Rehabilitation did not manage its imprest cash account in compliance with state policy.**

Internal controls have been added to assign an independent staff person to reconcile imprest cash account bank statements. Expenditures for the liquor license renewal at the Minnesota Discovery Center will not be financed from the imprest cash account in the future. This finding has been resolved.

Sincerely,

Mark R. Phillips
Commissioner

OLA

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