

**DEPARTMENT OF NATURAL RESOURCES
BRainerd REGIONAL OFFICE
FINANCIAL AND COMPLIANCE AUDIT
FOR THE YEAR ENDED JUNE 30, 1985**

JANUARY 1986



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Randolph W. Peterson, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Joseph Alexander, Commissioner
Department of Natural Resources

and

Mr. Robert Hance, Regional Administrator
Department of Natural Resources Brainerd Region

Audit Scope

We have completed a financial and compliance audit of the Department of Natural Resources, Brainerd regional office, for the year ended June 30, 1985. The audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. Field work was completed on August 30, 1985.

The objectives of this audit were to:

- study and evaluate major internal control systems at the Brainerd region, including a review of receipts, payroll, administrative disbursements, and imprest cash;
- verify that financial transactions were made in accordance with applicable laws, regulations, and policies, including Minnesota Statute Chapters 84, 84A, 85, 88, 89, 90, 92, 98, and 105, and other finance-related laws and regulations; and
- verify that financial transactions were properly recorded on the Statewide Accounting System.

The management of the Brainerd region is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

Senator Randolph W. Peterson, Chairman
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Mr. Joseph Alexander
and
Mr. Robert Hance
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Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

The management of the Brainerd region is also responsible for the agency's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by the Brainerd region. The purpose of our testing of transactions was to obtain reasonable assurance that Brainerd had, in all material respects, administered their programs in compliance with applicable laws and regulations.

Conclusions

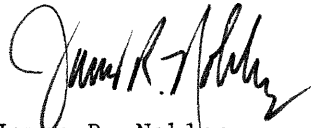
In our opinion, except for the issues raised in Section II, recommendations 1-5, the Brainerd region system of internal accounting control in effect on June 30, 1985, taken as a whole, was sufficient to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

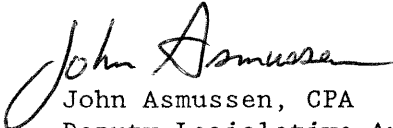
In our opinion, for the year ended June 30, 1985, the Brainerd region administered its' programs in compliance, in all material respects, with applicable finance-related laws and regulations.

In our opinion, for the year ended June 30, 1985, the Brainerd region properly recorded, in all material respects, its financial transaction on the Statewide Accounting System.

Section II of this Audit Report contains the recommendations we developed during this audit. They are presented to assist you in improving accounting procedures and controls. Progress on implementing these recommendations will be reviewed during our next audit.

We would like to thank the Brainerd region staff for the cooperation extended to us during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

January 10, 1986

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BRainerd REGIONAL OFFICE

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AUDIT PARTICIPATION

The following members of the Office of the Legislative Auditor participated in this audit:

John Asmussen, CPA	Deputy Legislative Auditor
Margaret Jenniges, CPA	Audit Manager
Jim Riebe	Auditor-in-Charge
Mike Anderson	Staff Auditor
Beth Widstrom-Anderson	Staff Auditor

DEPARTMENT OF NATURAL RESOURCES
BRAINERD REGIONAL OFFICE

I. INTRODUCTION

The Department of Natural Resources (DNR) exists to perpetuate and enhance Minnesota's lands, waters, timber, minerals, fish, wildlife, and other natural resources for the benefit and enjoyment of the public. In order to accomplish these objectives, the DNR has established headquarters in six regional offices throughout Minnesota.

The Region III office of the DNR is located in Brainerd. The regional office is comprised of a regional administrator and regional supervisors for each of the following areas: enforcement, fisheries, forestry, parks, and wildlife. Other staff represented at the regional level include, among others, waters and trail and waterway specialists. Regional supervisors report directly to their division directors at the central office in St. Paul concerning program matters. The regional administrator is responsible for coordinating and monitoring the field activities of these disciplines and supervising the administrative matters of the region. The Brainerd region also has area and district offices located throughout central Minnesota to assist in conducting the programs and activities of the various disciplines.

The Brainerd region incurred expenditures of approximately \$10.6 million in fiscal year 1985. Personal services comprised 78 percent of the total expenditures, while expense and contractual services accounted for 11 percent of total expenditures. The remaining expenditures were for supplies and materials which accounted for 8 percent of total expenditures and miscellaneous expenditures which represented 3 percent of total expenditures.

II. CURRENT FINDINGS AND RECOMMENDATIONS

Internal control over receipts collected in the Brainerd region should be strengthened.

The forestry division collects receipts from timber sales, forest campground registrations, equipment rentals, and land leases. These receipts are collected at the district, area, or regional forestry office for deposit. In prior audit reports, we recommended that the DNR study the feasibility of depositing forestry receipts into state depositories rather than mailing them to the central office. The DNR determined that during December 1984 and January 1985, two Brainerd area offices collected timber sales receipts totalling over \$25,000 each. The Department of Finance (DOF) has not established a minimum monthly deposit necessary for use of a state depository. However, DOF has indicated that these two offices do collect sufficient receipts to justify establishing depositories.

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The DNR has expressed concern in using state depositories for timber sales receipts because of the distance to these banks and the complex coding of the deposits which is required due to the different types of land involved. Detailed written depositing procedures could be used by area personnel to reduce the possibility of coding errors. Another alternative would be to deposit the receipts into a clearing account using the state depository. The central office staff would then code the deposits to the appropriate accounts. The use of state depositories by the forestry offices will strengthen internal controls over receipts and result in more timely deposits. The possibility of loss or theft is reduced since fewer individuals handle the receipts before they are deposited. Timely deposits result in the state earning additional interest and investment income.

Each forestry office collecting receipts should maintain accounting records which can be reconciled to actual deposits into the state depository, or to central office deposit records. This reconciliation would ensure that all money collected has been deposited and that the deposit has been made to the proper accounts and funds and in the correct dollar amounts. Any errors or irregularities detected through this procedure could then be resolved. The reconciliation of the accounting records to the deposits into the state depository or to central office deposit records should be performed by someone independent from the collection and deposit process. This reconciliation would identify errors or irregularities which could then be resolved. Currently, some forestry offices are completing receipt accounting records but are not maintaining them so the reconciliation cannot be performed.

Forest campground registration fees are self-assessed by the user and often paid for in cash. After collecting the fees, at least one forestry area office in the Brainerd region deposits the money into an employee's personal bank account. Then a check is drawn against the account and sent to the central office for deposit. Although this procedure avoids sending cash through the mail, state funds and personal funds should not be commingled. A state depository should be utilized for the deposit of campground fees whenever possible. When this is not possible, employees should purchase money orders which can then be sent to the central office.

State parks collect receipts for park permits, campground registrations, and sales of firewood and souvenirs. Mille Lacs Kathio state park personnel deposit receipts into a local state depository approximately three times per week. However, Minn. Stat. Section 16A.275 states,

"All receipts from any source shall be deposited with the State Treasurer each day except as otherwise provided by law. Receipts under \$250 may be deferred until they aggregate that sum."

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BRAINERD REGIONAL OFFICE

Park staff indicated that the remote location of the park from the depository and the personnel time involved make it inefficient to deposit receipts more frequently.

Deposit delays weaken internal controls since the opportunity for loss or theft exists while the receipts are undeposited. Delays also result in a loss of investment income to the state and have an adverse effect on its cash flow management. DNR should contact the Department of Finance (DOF) and express their concerns about complying with the daily deposit requirement. DOF may be able to provide alternate procedures acceptable to both DOF and DNR.

RECOMMENDATIONS:

1. *The DNR should establish state depositories for forestry receipts where it is determined to be efficient and economical.*
2. *Forestry offices should maintain accounting records for receipts collected which can be reconciled to actual deposits by someone independent of the receipt process.*
3. *Forestry campground registration fees should not be deposited into employees' personal bank accounts.*
4. *State park personnel should deposit all receipts aggregating \$250 or more on a daily basis or work with the Department of Finance to establish an acceptable deposit plan and schedule.*

Purchase orders are not routinely used for all purchases made by the Brainerd region.

Although Department of Finance procedure 06:04:04 requires preparation of purchase orders for all purchases, the Brainerd region has a policy waiving the use of department purchase orders for purchases less than \$100. This policy was established because the supervisors felt the transaction volume in the region made compliance impractical. DNR staff members have been negotiating with the Department of Administration, Procurement Division, for approval of this policy but have not yet reached an agreement.

RECOMMENDATION:

5. *Purchase orders should be used for all purchases as required by Department of Finance procedure 06:04:04 or DNR should complete negotiations with procurement and obtain approval for waiving the procedure.*



STATE OF
MINNESOTA
DEPARTMENT OF NATURAL RESOURCES

500 LAFAYETTE ROAD, ST. PAUL, MINNESOTA 55146

OFFICE OF THE
COMMISSIONER

DNR INFORMATION
(612) 296-6157

January 10, 1986

Ms. Margaret M. Jenniges, Audit Manager
Office of the Legislative Auditor
Veterans Service Building
St. Paul, Minnesota 55155

Dear Ms. Jenniges:

The purpose of this memo is to respond in writing to the findings and recommendations in the preliminary audit report for the DNR Brainerd Region Office for the period of July 1, 1984, through June 30, 1985.

Incorporated within this response is input from Robert Hance, the Regional Administrator; Al Yozamp, the Financial Management Bureau Administrator; and others within the central office staff.

RECOMMENDATIONS:

1. The possibility of establishing local state depositories for all areas of the state where DNR receives money will be investigated. This will be done in cooperation with the Department of Finance with a target completion date of July 1, 1986.
2. Standard forms and procedures will be established and implemented for all Forestry offices by July 1, 1986.
3. We agree that state funds and personal funds must not be commingled. Procedures developed for recommendations No. 1 and No. 2 will include corrective procedures for this recommendation.
4. Information has been requested from every state park regarding their average daily receipts, distance to depository and other information necessary to determine alternative procedures where daily deposits are not practical. Our staff and staff of the Department of Finance are scheduled to meet on January 16, 1986, to review this information and determine alternative procedures. It is expected that any necessary changes will be implemented by April 1, 1986.

Ms. Margaret M. Jenniges

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5. We have been negotiating with the Department of Administration, Procurement Division, but have not yet reached agreement and have not met with them for the past several months. Negotiations will be reactivated in an effort to reach mutual agreement by March 1, 1986. The volume of purchase orders required would be in excess of 60,000 department-wide. It does not appear practical to complete purchase orders for all purchases; the additional workload is significant and the benefit very small. However, any agreement with the Department of Administration will be implemented department-wide.

When the above items are resolved and implemented, copies of the procedures or other pertinent information will be forwarded to you.

Yours truly,


Joseph N. Alexander
Commissioner

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cc: Robert Hance
Joyce Nyhus
Al Yozamp