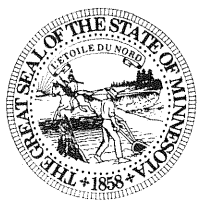

**DEPARTMENT OF NATURAL RESOURCES
GRAND RAPIDS REGIONAL OFFICE
FINANCIAL AND COMPLIANCE AUDIT
FOR THE YEAR ENDED JUNE 30, 1985**

MAY 1986

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota



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. John Chell, Regional Administrator
Department of Natural Resources, Grand Rapids Region

Audit Scope

We have completed a financial and compliance audit of the Department of Natural Resources, Grand Rapids regional office, for the year ended June 30, 1985. Section I provides a brief description of the Grand Rapids region activities and finances. 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 February 21, 1986.

The objectives of this audit were to:

- study and evaluate major internal accounting control systems at the Grand Rapids 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
- evaluate the recording and reporting of financial transactions on the Statewide Accounting (SWA) System.

The management of the Grand Rapids 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
Members of the Legislative Audit Commission
Mr. Joseph Alexander, Commissioner
and
Mr. John Chell, Regional Administrator
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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 Grand Rapids 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 Grand Rapids region. The purpose of our testing of transactions was to obtain reasonable assurance that Grand Rapids had, in all material respects, administered its programs in compliance with applicable laws and regulations.

Conclusions


In our opinion, except for the issues raised in Section II, recommendations 1-5, the Grand Rapids 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.


In our opinion, for the year ended June 30, 1985, the Grand Rapids 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 Grand Rapids region properly recorded, in all material respects, its financial transactions on the statewide accounting system.

The recommendations included in this audit report are presented to assist you in improving accounting procedures and controls. We will be monitoring and reviewing the Grand Rapids region's progress on implementing these recommendations.

We would like to thank the Grand Rapids region staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

April 30, 1986

DEPARTMENT OF NATURAL RESOURCES
GRAND RAPIDS 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
Charles Hoistad	Auditor-in-Charge
Colleen Berg	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following DNR staff on February 21, 1986:

John Chell, Administrator
Richard Bengtson, Business Manager

DEPARTMENT OF NATURAL RESOURCES
GRAND RAPIDS 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 II office of the DNR is located in Grand Rapids. 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 Grand Rapids region also has area and district offices located throughout north-east Minnesota to assist in conducting the programs and activities of the various disciplines.

The region office operations are financed through state appropriations from various funds. Approximately \$6.5 million was financed from the general fund, \$2 million from the special revenue fund, \$4 million from the game and fish fund, and the remaining \$500,000 from the federal and building funds.

The Grand Rapids region incurred expenditures of approximately \$12.5 million in fiscal year 1985. Personal services comprised 75 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 6 percent of total expenditures.

DEPARTMENT OF NATURAL RESOURCES
GRAND RAPIDS REGIONAL OFFICE

II. CURRENT FINDINGS AND RECOMMENDATIONS

Purchase orders and receiving reports are not routinely used for all purchases made by the Grand Rapids region.

Proper internal controls require that before an invoice is paid, adequate supporting documentation be on file to verify that the specific goods or services have been properly purchased and received. Proper documentation for purchases, as specified by Department of Finance procedures, includes purchase requisitions, purchase orders, receiving reports, and vendor's invoices.

Although Department of Finance procedure 06:04:04 requires preparation of purchase orders for all purchases, purchase orders are not used for all purchases made by the Grand Rapids regional office. Fifteen out of 30 disbursement sample items were not supported by purchase orders or department field purchase orders. Nine of the 15 items were for purchases of less than \$100. The other items were for purchases of between \$100 and \$560. DNR staff have been negotiating with the Department of Administration, Procurement Division, for approval of a policy waiving the use of department purchase orders. DNR is to submit their proposed procedures to the Department of Administration for review and approval.

Receiving reports are not always used at the Grand Rapids region as documentation that goods are actually received. Receiving reports serve two main functions, as discussed in Department of Finance operating procedure 06:05:01. First, they document that goods were received before invoices are paid. We found that receiving reports have not been prepared for many small purchases. In these instances, a signature on the purchase order or sales slip indicating that the goods have been received would be adequate.

Receiving reports also establish the date the office incurred a liability, or payable, for the goods. This date, referred to as the occurrence date, is entered into the statewide accounting system when the invoice is paid and is used by the Department of Finance to determine payables for the state's annual financial statements.

Signatures and dates on the packing slip, receiving report, purchase order, or sales slip would ensure that only invoices for which goods have been received are paid. It would also ensure that the proper occurrence date is used.

RECOMMENDATIONS:

- 1. The Grand Rapids region should use purchase orders for all purchases as required by Department of Finance procedure 06:04:04 or the DNR Central Office should complete negotiation with procurement and obtain approval for waiving the procedure.*

DEPARTMENT OF NATURAL RESOURCES
GRAND RAPIDS REGIONAL OFFICE

2. *The Grand Rapids region should require that employees receiving goods sign and date the packing slip or vendor sales slip to acknowledge receipt of goods.*

Controls over the imprest cash account could be improved.

The DNR regional office at Grand Rapids maintains a checking account at a local bank. The purpose of this account is to provide for the immediate cash needs of the region. Checks are written to pay the payroll costs of employees not on the payroll system, to purchase stamps, and to pay travel advances. Funds are provided on a reimbursement basis, each area being required to pay for expenditures made on its behalf out of its state funds. The account has an authorized balance of \$15,000 which includes a petty cash fund of \$50.

During our testing, we found a \$1,000 transaction for postage that was reimbursed 15 months after the occurrence date. DNR accounting personnel did not keep a copy of the invoice supporting the transaction, and consequently, forgot to make the reimbursement.

The dollar balance in the imprest cash account can vary from \$15,000 to \$0, depending upon the time of year. Generally, the \$15,000 is needed for only about two months in the spring and one month in the fall. On the average, there is between \$10,000 and \$12,000 in the account. The Grand Rapids region is currently depositing these funds in a non-interest earning account. At current interest rates, approximately \$700 in interest is being foregone each year. DNR should maintain the account at a bank that pays interest on checking accounts. If this is not possible, DNR should review the activity in the account to determine the balance needed at various times throughout the year. The balance could then be reduced when the \$15,000 is not needed.

RECOMMENDATIONS:

3. *The Grand Rapids region should ensure that all imprest cash disbursements are documented and charged to the appropriate account.*
4. *The Grand Rapids region should locate a bank which will pay interest on the imprest cash account or reduce the balance in the account when the \$15,000 is not needed.*

Internal control over the forestry division receipts collected in the Grand Rapids region should be strengthened.

The forestry division collects receipts from timber sales and forest campground registrations. These receipts are collected at the district, area, or regional forestry office. Receipts are forwarded from these locations to the central office in St. Paul where they are deposited. Currently, there are no procedures in effect to assure that funds sent from the district, area, or region are deposited correctly.

DEPARTMENT OF NATURAL RESOURCES
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DNR is currently investigating the possibility of establishing state depositories for the various offices. They are monitoring the activity at the area offices to determine which offices need depositories. The use of state depositories will strengthen internal controls over receipts and result in more timely deposits. The possibility of loss or theft is reduced since fewer individuals would handle the receipts before deposit. 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 the 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 records in 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.

RECOMMENDATION:

5. *Forestry offices should maintain accounting records for receipts collected which can be reconciled to actual deposits by someone independent of the receipt process.*



STATE OF
MINNESOTA
DEPARTMENT OF NATURAL RESOURCES

500 LAFAYETTE ROAD, ST. PAUL, MINNESOTA 55146

OFFICE OF THE
COMMISSIONER

DNR INFORMATION
(612) 296-6157

April 30, 1986

Mr. James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
First Floor, Veterans Service Building
St. Paul, Minnesota 55155

Dear Mr. Nobles:

Following is our response to your preliminary audit report for the Grand Rapids Regional Office and the Northern Service Center for the year ended June 30, 1985.

GRAND RAPIDS REGIONAL OFFICE

Recommendation #1

The Department of Natural Resources is negotiating with the Department of Finance and the Department of Administration, Procurement Division, for approval of a policy waiving use of Department purchase orders. An internal task group has been formed to develop alternative written procedures.

Person Responsible: Norm Kordell
Completion Date : July 1, 1986

Recommendation #2

The requirement for receiving reports will be incorporated into procedures developed for recommendation #1.

Person Responsible: Norm Kordell
Completion Date : July 1, 1986

Recommendation #3

The Grand Rapids business manager requires documentation for all imprest cash disbursements and will reconcile imprest cash accounts more often to ensure imprest cash accounts are reimbursed in a timely manner.

Person Responsible: Richard Bengtson
Completion Date : Implemented



Recommendation #4

The Grand Rapids business manager will secure an interest-paying account for the imprest cash fund. In addition, all Department of Natural Resources' imprest cash funds will be reviewed, and those not earning interest will be converted to interest-paying accounts.

Person Responsible: Richard Bengtson, John Bouthilet
Completion Date : June 1, 1986

Recommendation #5

The Department of Natural Resources is studying the Forestry deposit process to either utilize state depositories, if appropriate, or to strengthen the current process. The Division of Forestry has created a "Field Receipt Record," an accounting record on which Forestry offices will record receipt collections for reconciling to actual deposits.

Person Responsible: Joyce Nyhus
Completion Date : June 1, 1986

NORTHERN SERVICE CENTERRecommendation #1

See Grand Rapids Regional Office Recommendation #1

Recommendation #2

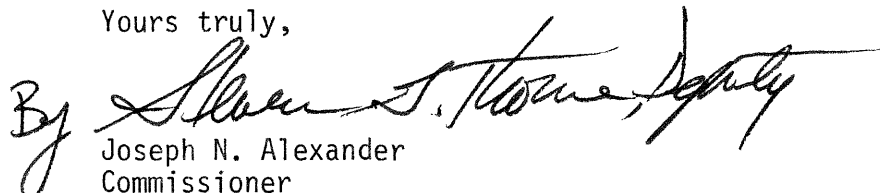
See Grand Rapids Regional Office Recommendation #2

Recommendation #3

The Northern Service Center will be required to review and monitor "Expenditure by AID" reports on a monthly basis to ensure that transactions are correctly entered into the statewide accounting system. They will not, however, perform a formal reconciliation, as recommended, because to do so would necessitate the maintenance of a duplicate accounting system. Such a reconciliation is not required by statewide accounting procedures. Maintenance of a duplicate accounting system would not be an efficient use of staff time.

Person Responsible: Norm Kordell
Completion Date : June 1, 1986

Yours truly,

By 
Joseph N. Alexander
Commissioner

cc: Steven Thorne, Eugene Gere, Allen Yozamp