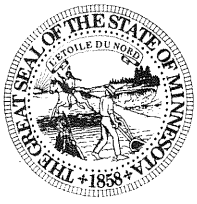

DEPARTMENT OF NATURAL RESOURCES
NORTHERN SERVICE CENTER
FINANCIAL AND COMPLIANCE AUDIT
FOR THE YEAR ENDED JUNE 30, 1985

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

and

Mr. Joseph Alexander, Commissioner
Department of Natural Resources

Audit Scope

We have completed a financial and compliance audit of the Department of Natural Resources, Northern Service Center, for the year ended June 30, 1985. Section I provides a brief description of the Northern Service Center activities. 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 Northern Service Center, including a review of receipts, payroll, and administrative disbursements;
- verify that financial transactions were made in accordance with applicable laws, regulations, and policies; and
- evaluate the recording and reporting of financial transactions on the Statewide Accounting (SWA) System.

The Department of Natural Resources 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.

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

Senator Randolph W. Peterson, Chairman
Members of the Legislative Audit Commission
and
Mr. Joseph Alexander
Page 2

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 Department of Natural Resources 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 Department of Natural Resources, Northern Service Center. The purpose of our testing of transactions was to obtain reasonable assurance that the Service Center had, in all material respects, administered their programs in compliance with applicable laws and regulations.

Conclusions

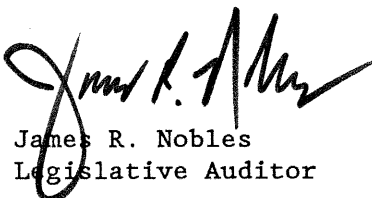
In our opinion, except for the issues raised in Section II, recommendations 1-3, the Northern Service Center system of internal accounting control in effect on June 30, 1985, taken as a whole, was sufficient to provide management with reasonable, but not absolute assurance that assets are safeguarded 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 Northern Service Center 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 Northern Service Center 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 Northern Service Center's progress on implementing these recommendations.

We would like to thank the Northern Service Center 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
NORTHERN SERVICE CENTER

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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 were discussed with the following DNR staff on February 21, 1986:

Art Henrickson	Supervisor, Northern Service Center
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DEPARTMENT OF NATURAL RESOURCES
NORTHERN SERVICE CENTER

I. INTRODUCTION

The Department of Natural Resources (DNR) has two supply warehouses, or service centers. The service centers were established to provide central supply and equipment centers for goods frequently used by DNR. The centers promote cost savings through central purchasing and quantity discounts. Inventory management is also strengthened by having a central warehouse which eliminates the need for extensive inventory supplies and records at field locations. The Northern Service Center is at Grand Rapids and supplies the three northern regions.

The Northern Service Center expended approximately \$590,000 for personal services in fiscal year 1985. Inventory items purchased by the center are charged to the account of the DNR division or unit requesting the item. At June 30, 1985, the center had inventory on hand valued at \$112,900.

DEPARTMENT OF NATURAL RESOURCES
NORTHERN SERVICE CENTER

II. CURRENT FINDINGS AND RECOMMENDATIONS

Purchase orders and receiving reports are not routinely used for all purchases made by the Northern Service Center.

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 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 Northern Service Center. Twenty-five out of 28 disbursement sample items were not supported by purchase orders or department field purchase orders. Twenty of the 25 items were for purchases of less than \$100. The others were for purchases of between \$100 and \$1,800. DNR Central Office 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 Northern Service Center as documentation that goods are actually received. We found that receiving reports were not prepared for purchases made under local purchase authority. 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. An alternative to preparing a receiving report is to sign the purchase order, packing slip, or sales slip indicating that the goods have been received. 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.

The Northern Service Center also needs to verify that transactions are correctly entered onto the statewide accounting system and that no unauthorized transactions occur. To accomplish this, the expenditures should be reconciled to an expenditure report such as the expenditure by AID report.

DEPARTMENT OF NATURAL RESOURCES
NORTHERN SERVICE CENTER

RECOMMENDATIONS:

1. *The Northern Service Center 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.*
2. *The Northern Service Center should require that employees receiving goods sign and date the packing slip or vendor sales slip to acknowledge receipt of goods.*
3. *Expenditures should be periodically reconciled to statewide accounting reports.*



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

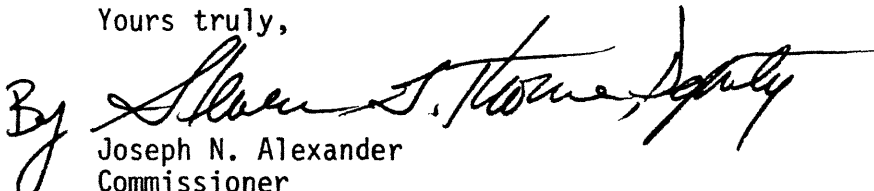
See Grand Rapids Regional Office Recommendation #2

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