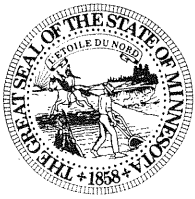

**DEPARTMENT OF NATURAL RESOURCES
NEW ULM REGION
FINANCIAL AND COMPLIANCE AUDIT
FOR THE YEAR ENDED JUNE 30, 1985**

JUNE 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

Mr. James Schneider, Regional Administrator
Department of Natural Resources, New Ulm Region

Audit Scope

We have completed a financial and compliance audit of the Department of Natural Resources, New Ulm regional office, for the year ended June 30, 1985. Section I provides a brief description of the New Ulm 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 March 26, 1986.

The objectives of this audit were to:

- study and evaluate major internal accounting control systems at the New Ulm 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, 92, 98, and 105, and other finance-related laws and regulations; and
- evaluate the recording and reporting of financial transactions on the statewide accounting system.

The management of the New Ulm region is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements 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
Mr. James Schneider
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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 New Ulm region is also responsible for the agency's compliance with laws and regulations. In accordance with our audit, we selected and tested transactions and records from the programs administered by the New Ulm region. The purpose of our testing of transactions was to obtain reasonable assurance that New Ulm had, in all material respects, administered its programs in compliance with applicable laws and regulations.

Conclusions

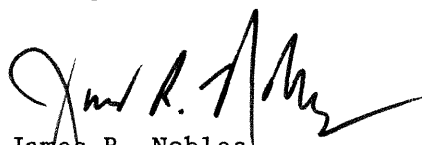
In our opinion, except for the issues raised in Section II, recommendations 1-3, the New Ulm region system of internal accounting control in effect on June 30, 1985, taken as a whole, was sufficient to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization.

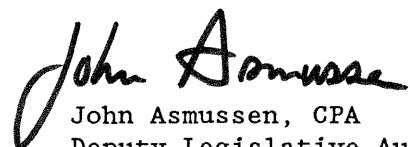
In our opinion, for the year ended June 30, 1985, the New Ulm region administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

In our opinion, for the year ended June 30, 1985, the New Ulm 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 the region in improving accounting procedures and controls. We will be monitoring and reviewing the New Ulm region's progress on implementing these recommendations.

We would like to thank the New Ulm region staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

May 29, 1986

DEPARTMENT OF NATURAL RESOURCES
NEW ULM 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
David Polisen	Auditor-in-Charge
Michael E. Anderson, CPA	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following Department of Natural Resources, New Ulm staff at an exit conference held on March 26, 1986:

James Schneider, Regional Administrator
Linda Pagel, Business Office

DEPARTMENT OF NATURAL RESOURCES
NEW ULM REGIONAL OFFICE

I. INTRODUCTION

The Department of Natural Resources (DNR) exists to perpetuate and enhance Minnesota's lands, waters, 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 IV office of the DNR is located in New Ulm. The regional office is comprised of a regional administrator and regional supervisors for each of the following areas: enforcement, fisheries, 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 regional office operations are financed through state appropriations from various funds. Approximately \$2.1 million was financed from the general fund, \$800,000 from the special revenue fund, \$4 million from the game and fish fund, and the remaining \$200,000 from the building and gift funds.

The New Ulm region incurred expenditures of approximately \$7 million in fiscal year 1985. Personal services comprised 75 percent of the total expenditures, while the remaining 25 percent was for operations such as contractual services and supplies and materials.

DEPARTMENT OF NATURAL RESOURCES
NEW ULM REGIONAL OFFICE

II. CURRENT FINDINGS AND RECOMMENDATIONS

Internal controls over receipts need strengthening.

The DNR divisions collect various types of receipts. The processing procedures and methods of deposit depend on the specific receipt. State parks collect receipts for items such as campsites, entrance permits, campfire wood, and souvenirs. The receipts are recorded in each park's individualized receipt records and deposited into state depositories. All receipts are summarized on a "Weekly Receipts Report" which is sent to the DNR central office. The receipts pertaining to the Waters, Fish, and Wildlife Divisions include fees received at the regional office for various permits. The receipts are recorded in manual records and are sent to the central office for deposit.

The New Ulm region has 13 state parks. We reviewed the receipt procedures at one of the parks, Flandrau State Park, and identified two internal control weaknesses. First, park personnel do not reconcile cash register tapes to deposits. The park receipts are processed through a programmable cash register capable of providing daily totals by receipt type. However, the register receipt totals are not reconciled to the deposits and the tapes are discarded. The cash is reconciled to the permits on the "Weekly Receipts Report." However, a reconciliation of the cash register tapes to the deposits is necessary to ensure that all cash received is actually deposited. The reconciliation should be performed by a person not having access to the cash.

We also found that Flandrau State Park receipts are not deposited daily. Our review of their deposits indicated that the park personnel deposit their receipts weekly into a local state depository in New Ulm. The amounts deposited consistently exceeded the \$250 minimum deposit amount required by Minn. Stat. Section 16A.275. 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.

Cash and checks received at the region office also are not deposited daily. Applications are received at the office for various permits issued by DNR. The receipt and application information is entered into a daily log. Generally, the receipts are held at the region office while the application is reviewed and processed. Once the application is processed the receipts are batched together and sent to the DNR central office for depositing. This process usually takes about two weeks. We reviewed a sample of deposits for each of the regional disciplines. Deposits of \$1,070 to \$5,995 were delayed two weeks before being sent, along with their applications, to the central office for depositing.

Prompt deposit of receipts could be accomplished with only minor changes to the current system. The various divisions could utilize the existing depository now being used by Flandrau State Park. To ensure adequate

DEPARTMENT OF NATURAL RESOURCES
NEW ULM REGIONAL OFFICE

control of the receipts, the deposits should be deposited daily in the depository. The documentation could later be sent to the DNR central office to ensure that the receipts are properly coded to the right accounts.

RECOMMENDATIONS:

1. *The Flandrau State Park personnel should reconcile all deposits to the applicable cash register tapes to ensure all receipts are properly deposited.*
2. *The regional office and state park personnel should deposit all receipts aggregating \$250 or more on a daily basis with a state depository.*

Purchase orders are not routinely used for all purchases made by the New Ulm 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 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 New Ulm regional office. Forty-three out of 49 disbursements tested were not supported by purchase orders or department purchase orders. Thirty-nine of the 43 items were for purchases of less than \$100. The other four items were for purchases of between \$100 and \$290. 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.

RECOMMENDATION:

3. *Purchase orders should be used for all purchases, as required by Department of Finance procedure 06:04:04, or the DNR central office 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

May 29, 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 New Ulm regional office for the year ended June 30, 1985.

Recommendation #1

The Flandrau State Park manager and all park managers will be reminded of the requirement to reconcile deposits to cash register tapes.

Person Responsible: Ron Nickerson
Completion Date : July 1, 1986

Recommendation #2

The Department of Natural Resources is examining the extent that depositories can be utilized for regional receipts. Our objective is to maximize use of depositories while collecting the management information requirements of the Department's revenue accounting system on the IBM System 38.

Persons Responsible: Ron Nickerson, Joyce Nyhus, John Bouthilet
Completion Date : October 1, 1986

Recommendation #3

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

Yours truly,

Joseph N. Alexander
Commissioner

cc: Steven Thorne, Eugene Gere, Allen Yozamp

AN EQUAL OPPORTUNITY EMPLOYER

