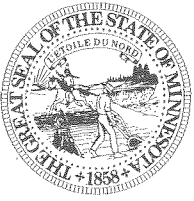


**DEPARTMENT OF NATURAL RESOURCES  
MANAGEMENT LETTER  
FISCAL YEAR 1986**

**MARCH 1987**





STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Mr. Joseph N. Alexander, Commissioner  
Department of Natural Resources  
500 Lafayette Road  
St. Paul, Minnesota 55146

Dear Commissioner Alexander:

We have reviewed certain accounting procedures and controls for your department as part of our statewide audit of the State of Minnesota's fiscal year 1986 financial statements and material federal programs. The scope of our work has been limited to:

- those aspects of your department which have a material impact on any of the state's various funds and account groups shown on the financial statements;
- federal programs as cited in the Catalog of Federal Domestic Assistance (CFDA) included in the single audit scope as follows:
  - Federal Aid in Wildlife Restoration (Pittman Robertson CFDA #15.611); and
  - Boating Safety - Financial Assistance (CFDA #20.005); and
- the status of prior audit recommendations.

We emphasize that this has not been a complete financial and compliance audit of all programs within your department. The work conducted in your department is part of our annual statewide financial and federal compliance audit (single audit). The single audit coverage satisfies the federal government's financial and compliance requirements for all federal programs administered by your department in fiscal year 1986. Since the federal government is ultimately responsible for determining the resolution of single audit recommendations, they will notify you of their final acceptance of your corrective actions.

This management letter contains both our recommendations developed during this audit and reiteration of our prior audit recommendations which have not yet been implemented. Prior audit recommendations repeated in this text are denoted under the caption "PRIOR RECOMMENDATIONS NOT IMPLEMENTED" or "PRIOR RECOMMENDATIONS PARTIALLY IMPLEMENTED." Attached to your management letter is a summary of the progress made on all audit recommendations discussed in our audit report for the year ended June 30, 1985, dated March 1986.

The current recommendations included in this letter are presented to assist you in improving accounting procedures and controls. Progress on implementing these recommendations will be reviewed during our audit next year.

PRIOR RECOMMENDATION PARTIALLY IMPLEMENTED: DNR has not studied the feasibility of establishing state depositories for receipts collected throughout the state.

In prior audits we recommended that in order to improve the timeliness of deposits, DNR should consider using state depositories for timber sales receipts collected in DNR forestry offices. In February 1986, the Forestry Division began an analysis of timber sales receipts collected in selected Forestry offices for six months. The review has not been completed and no decisions have been finalized on whether depositories should be established in these locations.

The collection of certain other types of receipts throughout DNR is also decentralized. In the Enforcement Division, conservation officers collect money in the field from the sale of game that has been taken illegally or is killed on the road. Confiscation receipts totalled approximately \$80,000 during calendar year 1985. These receipts are sent to the Enforcement Division at the central office for processing and then forwarded to Financial Management for deposit.

Receipts are also processed through Enforcement for safety training classes conducted by private instructors. After collection, the safety training receipts are routed through several DNR offices before they are received at the central office for deposit. This procedure delays the deposit process.

Similarly, in the Fish and Wildlife Division, commercial fish and wildlife license applications and receipts are processed by several DNR offices before the receipts are deposited. License receipts are not deposited for up to one month after collection.

We have also recommended that DNR consider the use of state depositories for receipts collected by county agents for game and fish licenses sold because of License Bureau delays in processing receipts. However, the License Bureau significantly improved the timeliness in which receipts are deposited once they are received in the department. As a result, depositories may not be necessary for license receipts but could still be considered. Finally, we have recommended that the state parks improve the timeliness of their deposits in order to comply with Minn. Stat. 16A.275, which requires deposits daily or when receipts aggregate \$250.

The use of state depositories provides for more timely deposit of receipts which results in additional investment and interest earnings for the state. It also reduces the possibility of loss or theft since fewer individuals handle the receipts prior to deposit.

RECOMMENDATION:

1. *The Financial Management Bureau should determine the most economic and efficient use of state depositories throughout DNR to ensure timeliness of deposits.*

PRIOR RECOMMENDATION PARTIALLY IMPLEMENTED: An inadequate separation of duties exists in the processing of counter and cross-country ski receipts in the License Bureau.

The License Bureau collects the majority of DNR receipts through the sale of game and fish and recreational licenses. In fiscal year 1985, there was a lack of separation of duties for counter, watercraft, snowmobile and off-road vehicle receipts because the same individual supervised the counter cashiers, prepared deposits, and was responsible for reconciling deposits to batch balance reports received from the Financial Management Bureau. Similarly, one individual received cross-country ski license fees and documentation, issued licenses, and reconciled licenses issued, sold and returned. Cross-country ski license receipt documentation was not reconciled to deposit reports from Financial Management.

Since July 1985, an independent reconciliation of watercraft, snowmobile, and off-road vehicle receipt documentation to Financial Management deposit reports is being completed. However, no one is performing similar independent procedures for counter or cross-country ski license receipts. Incompatible duties should be reassigned to ensure that the same individual cannot perpetrate and conceal errors or irregularities. Reconciliations performed by someone independent of the counter and cross-country ski receipt process would also strengthen controls by ensuring that all receipts are deposited and coded properly.

RECOMMENDATION:

2. *A person independent of the deposit process should reconcile counter cash register tape totals and cross-country ski license receipts to deposit slips and batch balance reports from the Financial Management Bureau to ensure that receipts are deposited and recorded properly in the accounting records.*

PRIOR RECOMMENDATIONS PARTIALLY IMPLEMENTED: The federal reimbursement requests need to be submitted more frequently and have adequate support for certain programs.

In recent years DNR had not identified and summarized expenditures incurred for federal projects in a timely manner. Manual recordkeeping systems were developed in the Fish and Wildlife Division and Forestry Division to accumulate these costs. These manual systems did not provide adequate supporting documentation for supplies, expenses, and payroll expense transfers included in federal reimbursement requests. The divisions are continuing to make significant progress in submitting timely and accurate federal reimbursement requests. Both divisions are implementing procedures to use the statewide accounting system to cost code expenditures. DNR believes this system will eliminate the need for manual records and provide for more timely reimbursement requests. The following discussion highlights the problems which will be addressed by the new cost accounting system.

Forestry Division

The Forestry Division has improved the timeliness of federal reimbursement requests since 1985 when the requests were submitted only three times for the BWCA (Boundary Waters Canoe Area, CFDA #10.669) program and not more than once for each of the Cooperative Forestry Programs (CFDA #10.664). During fiscal year 1986, BWCA reimbursement requests were submitted approximately once a month. Reimbursement requests were submitted twice during the fiscal year for some Cooperative Forestry programs, while they were still submitted only once during the year for other programs. Forestry continues to complete the federal request for reimbursement on an estimated basis because the invoices for all regions must be coded to the correct project in the central office.

In the past, we reported that payroll expense documentation for the Cooperative Forestry Assistance Programs needed improvement because the monthly time summary reports were not signed by supervisors and could not be reconciled to the biweekly time reports. We also reported that payroll expense transfers, in particular for the BWCA projects, were not adequately documented to ensure that employees actually worked on BWCA projects. In September 1986, Forestry Division staff distributed payroll expense transfer procedures which require adequate supporting documentation before transfers are made. These procedures should ensure that payroll expense transfers within federal programs are adequately documented.

Effective July 1, 1986, the Forestry Division began using the statewide accounting system to cost code expenditures. This system should enable Forestry staff to prepare more timely reimbursement requests for Cooperative Forestry programs on an actual cost basis and eliminate the need for federal time summaries for payroll costs.

Fish and Wildlife Division

The Fish and Wildlife Division reimbursement requests formerly were submitted quarterly for the Wildlife Restoration (CFDA #15.611) and Fish Restoration (CFDA #15.605) projects. However, the costs were often incurred by the state up to three months or more before the request was prepared. During fiscal year 1986, the Fish and Wildlife Division began submitting reimbursement requests as often as monthly. However, firearm safety project requests are submitted only occasionally and pertain to costs incurred from four to six months before the request was prepared. The division began using the letter-of-credit system in December 1986, which will enable them to receive federal funds on a more timely basis.

Other weaknesses exist in the administration of fish and wildlife federal programs. Immediate supervisors do not approve daily activity reports which document the federal projects that staff work on. Also the calculation of payroll costs was not updated for changes in employee pay rates for up to three months after the changes became effective. In addition, Fish and Wildlife staff are required by OMB Circular A-102, Attachment E to report program income earned on the sale of resources from lands purchased with federal funds. However, DNR cannot determine the income

from federally purchased lands and reports program income from all lands including land acquired with state funds. As a result, program income is overstated.

The Fish and Wildlife Division is working on developing and implementing a cost accounting system as part of the statewide accounting system. DNR believes the new system will eliminate the need for manual recordkeeping which is still being used as a basis for preparing federal reimbursement requests. It will also enable the division to summarize state and federal costs by project, so that reimbursement requests can be submitted on a more timely basis. The system will also address the payroll weaknesses previously reported, and allow DNR to identify program income from land purchased with federal funds in the future.

#### LAWCON

The delays experienced in submitting federal reimbursement requests for the LAWCON program are not related to cost accounting issues. The Bureau of Engineering incurs most of the LAWCON (Outdoor Recreation Acquisition Development and Planning Program, CFDA #15.916) expenditures. The supporting documentation is sent to the Division of Parks and Recreation where it is sorted and then forwarded to the Planning Division. This division then summarizes the expenditures by project and prepares the federal request for reimbursement. The Planning Division does not prepare timely federal reimbursement requests. We have reported this problem since fiscal year 1983. This year one sample LAWCON reimbursement request for \$136,957 was submitted in June 1986, for expenditures incurred between August and October 1985, a delay of approximately eight to ten months.

#### RECOMMENDATIONS:

3. *The Forestry Division should prepare federal reimbursement requests for Cooperative Forestry programs based on actual costs.*
4. *The DNR Fish and Wildlife Division should complete the implementation of the cost accounting system for payroll and supplies expenses.*
5. *Reimbursement requests for all federal grants should be submitted as often as is allowable and reasonable under applicable federal guidelines, especially for Wildlife Restoration, Cooperative Forestry, and LAWCON programs.*

The Fish and Wildlife Division is not properly recording compensatory time earned and taken by its employees.

Fish and Wildlife Division employees covered by certain bargaining units are eligible to receive compensatory time off. Compensatory time off is earned only when an employee works hours in addition to the normal eighty hours in a pay period. Some division employees are members of the Minnesota Association of Professional Employees (MAPE). The following provisions regarding overtime apply to members of MAPE.

"Employees may receive overtime at the rate of straight-time when assigned to a special work assignment which is in addition to their normal job duties and upon having received advance approval from their Appointing Authority. Such overtime may be liquidated either in cash or compensatory time off at the option of the Appointing Authority who shall consider the desires of the employee. Employees are eligible for overtime only after completing eighty (80) hours work in a pay period."

There are similar, but more complex provisions (depending on supervisory levels) for employees participating in the Middle Management Association (MMA).

In the Fish and Wildlife Division, compensatory time earned and taken has not been consistently or uniformly recorded on employee biweekly time reports in accordance with Department of Finance Operating Policy and Procedure 07:04:23. Compensatory time taken is being recorded on the daily time summaries, however Operating Procedure 07:04:23 states:

"Each state employee must initiate a written request for personal leave. Whenever possible, this request should be made in advance of the leave. If advance approval is not possible, the request should be submitted to the supervisor promptly upon the employee's return to work."

By not formally authorizing and recording compensatory time earned and taken, the controls over compensatory time become limited, and there is limited assurance that employees are entitled to all the compensatory time taken.

*RECOMMENDATION:*

6. *Fish and Wildlife Division personnel should record compensatory time earned and taken in accordance with SWA procedure 07:04:23.*

PRIOR RECOMMENDATION PARTIALLY IMPLEMENTED: DNR has not updated equipment use rates contained in federal reimbursement requests.

In addition to salaries, supplies and expense, OMB Circular A-87, Attachment B, Section B11, states that allowable costs may include depreciation or use allowances for equipment. Use allowances provide compensation in lieu of depreciation or funding equipment purchases directly by the federal government.

Currently, only federal programs administered by the Fish and Wildlife Division--Fish Restoration and Wildlife Restoration--claim the equipment allowance on federal projects. The usage rates being applied are outdated, however, since they are based on Operation Order #46 which was effective in June 1981. As of December 1986, revised Operation Order #46 containing updated equipment use rates has been submitted for the commissioner's authorization. However, these revisions do not include some equipment used in the Fish and Wildlife Division. The Director of the Fish and Wildlife Division has required that division staff establish those rates by March 1987.



Equipment use allowances are based on acquisition cost. Therefore, as prices rise and equipment is replaced, these rates would increase if the equipment rate schedules were updated accordingly. By not updating equipment use rates in a timely manner, DNR is not able to claim the maximum reimbursement available from the federal government for equipment used on federal projects.

Equipment use allowances are claimed for equipment used on the Firearm Safety Program. Although the documentation supporting other supply and expense costs charged to these projects has improved markedly, the monthly report of federal reimbursable expenditures and the daily unit (equipment) diaries do not identify the federal project on which the equipment was used.

*RECOMMENDATIONS:*

7. *The equipment rate schedule should be updated periodically and the rates submitted by the area and regional offices should be monitored to ensure that current equipment rates are being used.*
8. *The Firearm Safety Program monthly reports of federal reimbursable expenditures and supporting daily unit diaries that include equipment use allowances should identify the federal projects on which the equipment was used.*

The administration of the National Recreational Boating Safety Financial Assistance Program (CFDA #20.005) needs to be improved.

The objective of the National Recreational Boating Safety Financial Assistance Program (BSP) is to supplement state programs for boating safety education, assistance, and enforcement activities. Minnesota applied for participation in this program in 1983 and has received allocations of approximately \$2.5 million through September 1986.

The BSP requests for advance or reimbursement are not supported by adequate source documentation and the accounting records do not adequately identify the source and application of funds. These reporting standards are required by Attachment G of the U.S. Office of Management and Budget Circular A-102. BSP requests have not been based on actual expenditures as recorded on the statewide accounting system, or on detailed projections of program costs to be incurred upon receipt of the federal funds. Adequate supporting documentation is essential in determining whether the BSP is being administered in compliance with federal cash management requirements.

As of June 30, 1986, DNR had received approximately \$1.4 million of the total federal BSP allocations. However, an unliquidated balance of \$593,221 existed in the federal account as of that date. Lack of adequate supporting documentation will require a comprehensive analysis of the financial activity in the boat and water safety program to determine what the unliquidated balance represents. The analysis should consider:

- state appropriations, federal allocations and receipts, and the timing and amount of expenditures from the state and federal accounts;
- the 50 percent state match required in order to be eligible to receive federal funds;
- the grant provisions that allow DNR up to three years after the date of allocation to spend the federal funds (although requests for federal funds must be limited to immediate cash needs as explained below); and
- the Legislative Advisory Commission's authorization of the BSP spending.

The unliquidated balance may represent federal funds received based on past expenditures incurred in other state appropriation accounts. In this case, DNR may be required to return the balance to the General Fund. However, if the excess balance represents funds advanced from the federal government, DNR may be required to return the funds until they are needed to meet future BSP expenditures. In the future, BSP requests for federal funds should be prepared as often as reasonable and allowable according to grant guidelines so that the state does not lose investment or interest earnings. If the BSP requests are prepared on an advance basis, the funds requested should be limited to immediate cash needs as required by Treasury Circular 1075. Since 1984, BSP staff have only prepared requests once each year.

The BSP guidelines also require the submission of financial status reports on a quarterly basis and upon project completion. DNR has only submitted these requests annually and does not complete all line items as required. The supporting documentation for the amounts included in these reports is also inadequate.

During fiscal year 1986, \$33,981 in federal funds were budgeted and received to pay for expenses incurred in the audit of the state and federal boat and water safety program. However, of the total amount received, only \$18,087--including \$991 in supplies and expenses and \$17,096 in salary costs--was charged to this federal account. The remaining funds have not been spent. The salary costs actually incurred were not sufficiently documented by time distribution records and included time spent on audits of programs within DNR that were unrelated to boat and water safety activities. Indirect cost reimbursement was also claimed on the total direct salaries charged, even though some of the work was unrelated to BSP. The fiscal year 1986 indirect cost rate was 25.06 percent.

RECOMMENDATIONS:

9. DNR should determine the disposition of the \$593,221 balance in the federal BSP account.
10. Adequate supporting documentation, including statewide accounting reports, should be maintained for federal requests for advance or reimbursement and financial status reports.

11. *Financial status reports should be filed on a quarterly basis as required by grant guidelines, unless the requirement is formally waived by the federal agency.*
12. *Requests for advance or reimbursements should be submitted as often as is reasonable and allowable under grant guidelines, and in accordance with Treasury Circular 1075, if applicable.*
13. *Only direct costs incurred specifically in the performance of recreational boating safety activities should be funded by the BSP. Costs should be supported by adequate time distribution records.*

PRIOR RECOMMENDATION NOT IMPLEMENTED: Inventory records at the Southern Service Center (SSC) are not accurate.

In fiscal year 1985, a spot-check of physical inventory was completed which was reconciled to the SSC perpetual inventory records. Of the 21 items counted, five did not agree with the recorded amounts. This year similar tests of ten stock items resulted in a 50 percent exception rate between the physical count and the perpetual inventory records. SSC personnel could not account for these differences.

An efficiently operating perpetual inventory system should provide an accurate count of all inventory items at any point in time so the inventory records can be used for ordering stock. Since the SSC is one of the major inventory warehousing and distribution centers in DNR, it is important that its inventory management activities be effective and properly controlled.

RECOMMENDATION:

14. *SSC should follow established procedures for the recording and accounting of inventories, including conducting cycle counts, verifying stock on hand when purchases are received, and adjusting inventory records accordingly, so inventory records reflect accurate data.*

PRIOR RECOMMENDATION PARTIALLY IMPLEMENTED: Uncollected accounts receivable related to timber sales have not been written off.

The Forestry Division collects revenue from the sale of timber on state lands. During fiscal year 1986, approximately \$3.3 million (cash basis receipts) was generated from the sale of timber. Before a timber permit is issued, a bond is required to be submitted to DNR by the applicant. The bonding ensures that DNR will receive the value of the timber it has offered for sale. However, sometimes uncollectible accounts do occur.

During fiscal year 1986, timber sales section personnel prepared a listing of uncollectible accounts which totalled approximately \$14,300. Since timber sales uncollectible accounts have never been written off, some of these accounts originated in the 1950's. Although the uncollectible account list is now available, it has not been submitted to the Executive

Council for approval. Minn. Stat. 10.15 allows for the write off of uncollectible accounts over \$500 after three years, with the approval of the Executive Council.

*RECOMMENDATION:*

15. *Uncollectible accounts receivable should be written off in accordance with Minn. Stat. 10.15.*

Observations of Noncompliance Under the Federal Hatch Act

Under the Single Audit Act we are required to report areas of noncompliance identified during the course of our audit and to present them in our management letter. The following noncompliance issue is presented to meet that requirement. It does not result in a recommendation to the department.

An employee of the Department of Natural Resources appears to have violated the Federal Hatch Act.

Title 5 of the United States Code (referred to as the Hatch Act) prohibits employees whose salaries are either partially or fully paid with federal funds from engaging in certain political activities. In particular, the Hatch Act prohibits employees from participating as partisan candidates in public elections, unless they terminate their employment first. An employee of the Minnesota Department of Natural Resources (DNR) violated the Act by running as a partisan candidate for the Minnesota Legislature in the 1986 general election while maintaining his employment status.

Minn. Stat. Section 43A.32, Subd 2.(d) provides that employees, "Take leave of absence upon becoming a candidate, or during the course of candidacy for any elected public office if, in the opinion of the commissioner, the candidacy conflicts with regular state employment." Minnesota statutes do not require employees running for public office to terminate their employment.

Department of Employee Relations (DOER) Administrative Procedure Number 32 provides in part that, " . . . The taking of a leave of absence to run for partisan public office which included primary and run-off elections to nominate candidates of partisan political parties is prohibited by the Hatch Act." However, in a decision reached in U.S. District Court, Johnson v. Cushing, 483 F Supp 608 (D. Minn. 1980), the Court ruled that since classified state employees have a right to a leave of absence under Minnesota law, they need not resign upon filing for partisan public office as required by the Hatch Act. Thus, employees in positions subject to the Hatch Act are currently entitled to a leave of absence and do not have to resign. Agencies are now bound by the court order. This places Minnesota agencies in a position inconsistent with the Hatch Act as administered in other jurisdictions.

In February 1986, a DNR employee notified DOER, that he intended to run as a partisan candidate for public office. The Commissioner of Employee Relations responded that as long as no conflict of interest exists (as

between campaign time and "on duty" time) and the employee strictly conforms to the provisions of Minn. Stat. Section 43A.32 and 43A.38 a leave of absence would not be necessary. However, if the employee was elected, he would have to take a leave upon assuming office. The employee had discussed his intentions to run for public office with DNR. He was told he would be required to take a leave of absence to run for office. DNR also felt that because his position consisted of public relations and flexible hours, a potential conflict of interest existed.

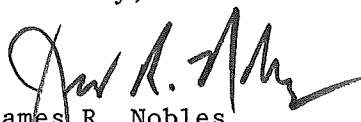
In his statement to DOER the individual indicated that his salary was funded by the state; however, his supervisor disagreed. The supervisor noted that although the employee's salary is paid by the state, the federal government reimburses the state for the actual time spent by the employee conducting firearms safety training. This reimbursement is deposited into the Game and Fish Fund. Officers' salaries consist of 75 percent reappropriated from the Game and Fish Fund and 25 percent from the state's General Fund.

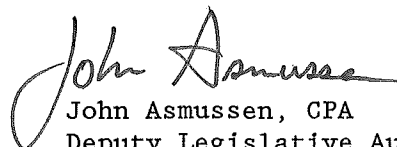
An attorney for the U.S. Merit Systems Protection Board, (the agency charged with determining and disciplining infractions of the Hatch Act), was contacted on October 31, 1986, to determine whether the Hatch Act applied to this DNR employee. The attorney indicated that since the employee's salary was partially paid from federal funds, the employee was subject to the Hatch Act.

Currently, the state is awaiting the outcome of petitions filed with the Office of Special Counsel of the U.S. Merit Systems Protection Board in a case before it concerning the political activity violation of an employee from the Department of Jobs and Training. Until that decision is reached, any action taken on this Hatch Act violation by the U.S. Merit Systems Protection Board is unknown.

Thank you for the cooperation extended to our staff during this audit.

Sincerely,

  
James R. Nobles  
Legislative Auditor  
Attachment

  
John Asmussen, CPA  
Deputy Legislative Auditor

February 20, 1987

DEPARTMENT OF NATURAL RESOURCES

STATUS OF PRIOR AUDIT RECOMMENDATIONS  
AND  
PROGRESS TOWARD IMPLEMENTATION

The administrative and internal controls over the department's programs need to be improved.

1. DNR should complete its plans to provide all employees responsible for accounting related duties with the necessary guidance and instruction to ensure that administrative and accounting controls are adequate.

*RECOMMENDATION SUBSTANTIALLY IMPLEMENTED.* The Administrator of the Financial Management Bureau hired an employee in November 1986 to develop a financial procedures manual and to conduct training on financial activities throughout the department. Also, the federal aid coordinator position to manage the receipt and use of federal funds was approved. The position has not been filled. Further, the Forestry Division implemented cost coding of expenditures in July 1986 in order to improve the administration of federal funds. Any remaining concerns are addressed in separate findings within the management letter.

Internal controls over receipts collected throughout the DNR need strengthening.

2. The Financial Management Bureau should determine the most economic and efficient use of state depositories throughout DNR to ensure timeliness of deposits.

*RECOMMENDATION PARTIALLY IMPLEMENTED.* In February 1986, the Forestry Division began an analysis of timber sales receipts collected in certain DNR forestry offices to quantify the cost and benefit of establishing state depositories in those areas. See current recommendation #1.

3. Financial Management should consider receiving all miscellaneous types of receipts directly to strengthen controls and ensure checks are promptly deposited and restrictively endorsed.

*RECOMMENDATION IMPLEMENTED.* The Financial Management Bureau Administrator distributed an office memorandum dated April 30, 1986, which required that miscellaneous receipts be sent directly to Financial Management. Also, confiscation and safety training class checks are now restrictively endorsed.

4. Financial Management should monitor boat and water, and game and fish fines and penalties that have been deposited into the wrong account to determine if a year-end adjustment would be necessary.

*RECOMMENDATION IMPLEMENTED.* In January 1987, Financial Management Bureau staff calculated a net adjustment increasing boat and water safety fines by \$1,472 for calendar year 1985.

5. Financial Management should monitor and initiate action for the disposition and collection of overdue fines and penalties.

*RECOMMENDATION SUBSTANTIALLY IMPLEMENTED.* A new computer system was implemented in July 1986 to account for boat and water, and game and fish fines and penalties. To monitor these accounts, Financial Management staff intend to periodically submit computerized accounts receivable listings to the counties for followup.

6. The Financial Management Bureau should adjust the accounting records for refunds on timber sales applied to permits for timber on other types of land if necessary.

*RECOMMENDATION IMPLEMENTED.* In July 1986, Financial Management Bureau staff began adjusting the accounting records for refunds on timber sales applied to permits on other land types.

7. A person independent of the deposit process should reconcile counter cash register tape totals, watercraft registrations, and cross-country ski license receipts to deposit slips and batch balance reports from the Financial Management Bureau to ensure that receipts are deposited and recorded properly in the accounting records.

*RECOMMENDATION PARTIALLY IMPLEMENTED.* An independent reconciliation of watercraft, snowmobile, and off-road vehicle receipt documentation to deposit reports has been completed since July 1985. See current recommendation #2.

8. The DNR License Bureau should complete an annual reconciliation of all licenses printed, issued, sold, and voided.

*RECOMMENDATION SUBSTANTIALLY IMPLEMENTED.* Licenses printed, issued, sold, and returned were reconciled through the license computer system at the end of license year 1985 for all license codes. However, License Bureau staff should verify the licenses printed, but not issued, to the physical licenses on hand.

9. License receipt system modifications should be tested to ensure that the system is summarizing receipts correctly.

*RECOMMENDATION IMPLEMENTED.* Effective March 1986, a system modification to increase trout and waterfowl stamp fees was verified by reviewing the change on the receipt system. Staff also review system-generated receipt reports to ensure the fees are recorded properly.

10. The License Bureau should ensure that all counties are filing license receipts on a timely basis.

*RECOMMENDATION IMPLEMENTED.* In July 1985, License Bureau staff began noting the date they receive county license receipts to assist them in monitoring the timeliness of county submission. Staff also call counties to request delinquent payments, and intend to withhold license shipments from counties that are significantly late in filing license receipts.

11. The License Bureau should promptly deposit all commercial fishing license receipts.

*RECOMMENDATION MODIFIED.* The delays in depositing commercial license receipts occur in the Fish and Wildlife Division and not in the License Bureau. See current recommendation #1.

12. Enforcement should:

- prepare a listing of all receipts sent to Financial Management to be verified with revenue accounting batch reports to ensure that all monies were correctly deposited;
- ensure that all receipts are deposited on a daily basis or when they total \$250 or more; and
- date-stamp all incoming confiscation receipt documentation to aid in prompt deposit analysis.

*RECOMMENDATION IMPLEMENTED.* By August 1986, Enforcement source documents were being date-stamped and listings of receipts were prepared and compared to both reports from Financial Management.

13. To improve controls over safety training class receipts, the Enforcement Division should:

- deposit these receipts at the earliest opportunity, that is, by the first DNR office to receive the money;
- safeguard receipts waiting for a deposit by restrictively endorsing checks with "for deposit only," and by securing receipts in a locked drawer, etc. until they are deposited.

*RECOMMENDATION IMPLEMENTED.* The Enforcement Division began restrictively endorsing safety training receipts in July 1986 and receipts are locked in a desk drawer until deposited.

14. The Forestry Division should consider billing more frequently than once each year for timber harvested.

*RECOMMENDATION IMPLEMENTED.* A timber sales system user's group has been organized and a work plan, including the design of an accounts receivable system for timber sales billings was established in November 1986.

15. Uncollectible accounts receivable should be written off in accordance with Minn. Stat. 10.15.

*RECOMMENDATION PARTIALLY IMPLEMENTED.* During fiscal year 1986, timber sales section staff prepared a listing of uncollectible accounts which totaled \$14,300. See current recommendation #15.



Federal reimbursement requests are not submitted on a timely basis and payroll expenses eligible for federal reimbursement are not adequately documented.

16. DNR should complete the development and implementation of the cost accounting system.

*RECOMMENDATION PARTIALLY IMPLEMENTED.* The Forestry Division began using the statewide accounting system to cost code expenditures. The Fish and Wildlife Division is continuing to develop similar cost accounting methods. See current recommendation #4.

17. Reimbursement requests for all federal grants should be submitted as often as is allowable and reasonable under applicable federal guidelines, especially for Wildlife Restoration, Fish Restoration, BWCA, Cooperative Forestry, and LAWCON programs.

*RECOMMENDATION PARTIALLY IMPLEMENTED.* Federal reimbursement requests are being submitted approximately monthly for Wildlife Restoration (most projects), Fish Restoration, and BWCA programs. See current recommendation #5.

18. The Forestry Division should prepare federal reimbursement requests based on actual costs.

*RECOMMENDATION NOT IMPLEMENTED.* See current recommendation #3.

19. The audit trail for payroll costs charged to federal programs, including payroll expense transfers, should clearly indicate that the costs were charged to the correct program, especially in the Forestry Division.

*RECOMMENDATION SUBSTANTIALLY IMPLEMENTED.* The Forestry Division business manager distributed payroll expense transfer procedures in September 1986, which specify the documentation required in order to transfer payroll expenses involving federal projects. These procedures should ensure that payroll expense transfers within federal accounts are adequately supported. This recommendation has not received final acceptance by the United States Department of Interior.

Administrative controls over the Federal Aid in Wildlife Restoration Program (CFDA #15.611) and the Federal Aid in Sport Fish Program (CFDA #15.605) need improvement.

20. Reimbursement requests should be reviewed for accuracy before being submitted to the federal government.

*RECOMMENDATION IMPLEMENTED.* Reimbursement requests have been reviewed by an accounting officer since January 1986. Also, since May 1986, the calculation for indirect cost reimbursements has been computerized. This recommendation has received final acceptance by the United States Department of Interior.

21. Supplies and expense costs recorded on the federal project expense forms should be referenced to supporting documentation.

*RECOMMENDATION IMPLEMENTED.* In October 1986, the acting federal aid coordinator in the Fish and Wildlife Division began requiring adequate supporting documentation for supplies and expense cost reimbursement requests. Unsupported costs are disallowed and excluded from the requests. This recommendation has not received final acceptance by the United States Department of Interior.

22. The equipment rate schedule should be updated periodically and the rates submitted by the area and regional offices should be monitored to ensure that current equipment rates are being used.

*RECOMMENDATION PARTIALLY IMPLEMENTED.* As of December 1986, revised Operational Order #46 containing updated equipment use rates has been submitted for the commissioner's authorization. See current recommendation #7.

DNR does not prepare all state and federal financial statements on the accrual basis of accounting and/or does not provide the relevant financial data to the Department of Finance (DOF).

23. The Enforcement Division should report Firearm Safety Program federal aid receivable amounts to be included in the Game and Fish Fund financial statements.

*RECOMMENDATION IMPLEMENTED.* The Enforcement Division prepared a federal request for reimbursement of \$52,544 in fiscal year 1986 for Firearm Safety expenditures on July 23, 1986, which they reported to the Fish and Wildlife Division.

24. DNR should work with the DOF to:

- define revenue recognition criteria for timber sales, and determine a method of calculating accruals for timber sales and other material programs; and
- determine the best method of maintaining and recording program expenditures so that federal expenditure financial statements can be prepared on the accrual basis of accounting.

*RECOMMENDATION SUBSTANTIALLY IMPLEMENTED.* DNR and DOF staff met in July 1986 and determined their respective responsibilities for the preparation of financial statements on the accrual basis of accounting. For fiscal year 1986, single audit federal financial schedules were prepared on the accrual basis of accounting. However, accruals cannot be calculated for timber sales without computerizing the accounting system.

The Parks and Recreation Division is not ensuring compliance with the Tower Soudan lease agreement with the University of Minnesota.

25. The DNR needs to establish billing procedures which conform to the terms of the Tower Soudan lease agreement and which provide for adequate information to be given to the U of M, including documentation for charges and the status of the U of M account managed by DNR.

*RECOMMENDATION IMPLEMENTED. A draft of written billing procedures for the Tower Sudan lease agreement was prepared in July 1986.*

26. The DNR should monitor the financial transactions pertaining to the lease with the U of M and ensure that reimbursements from the U of M are timely and that the U of M maintains the required \$50,000 account balance.

*RECOMMENDATION IMPLEMENTED. The Parks and Recreation Division staff collected \$130,000 from the University of Minnesota for amounts past due and are negotiating an amendment to the Tower Soudan lease agreement which may significantly simplify the billing process.*

Inventory management at the Southern Service Center (SSC) needs to be improved.

27. SSC should process all backorders promptly and comply with the five day turnaround policy on all future orders.

*RECOMMENDATION IMPLEMENTED. Staff were reassigned to the Southern Service Center to process backorders in December 1985. Current backorders are minimal and other orders are filled in a timely manner.*

28. SSC should follow established procedures for the recording and accounting of inventories so records reflect accurate data.

*RECOMMENDATION NOT IMPLEMENTED. See current recommendation #14.*

29. Location codes and reorder points should be established for all inventoried items.

*RECOMMENDATION SUBSTANTIALLY IMPLEMENTED. Staff have labeled some storage bins containing similar but not identical stock, although they do not intend to establish location codes for all inventory items. Also, in July 1986 staff began establishing reorder points for inventory items.*

Some programs administered by DNR are not in compliance with legislative requirements.

30. The Fish and Wildlife Division should:

- seek legislation to clarify the statutory language pertaining to the pheasant, waterfowl, and trout stamp programs, in particular the definition of administrative costs and annual deposits; and

- develop procedures for monitoring administrative expenditures of these programs to ensure compliance with statutory guidelines.

*RECOMMENDATION MODIFIED.* The statutory requirements were discussed during the 1986 legislative session although no amendments were passed. We did not review the administrative expenditures for these programs to determine if the statutory limits were exceeded during fiscal year 1986. DNR staff stated no procedures were developed to ensure such limits were not exceeded.

31. The License Bureau should seek legislation to amend Minn. Stat. 85.41, Subd. 2 to allow agents to retain four percent of daily cross-country ski license sales.

*RECOMMENDATION IMPLEMENTED.* DNR has prepared legislation authorizing counties to retain certain fees for the issuance of cross-country ski licenses.

DNR has not established controls to ensure compliance with the provisions of the Davis-Bacon Act.

32. DNR Internal Audit should verify that the prevailing wage is being paid by construction contractors and subcontractors who work on federally assisted projects in accordance with provisions of the federal Davis-Bacon Act.

*RECOMMENDATION IMPLEMENTED.* In November 1986, DNR engineers began verifying that the prevailing wage is being paid in accordance with the Davis-Bacon Act for a minimum of two construction contracts per year in each of the six DNR regions. This recommendation has not received final acceptance from the United States Department of Interior.

DNR has not developed written procedures for the administration of indirect costs.

33. DNR should develop a written policy and procedures for the administration of federal indirect costs. The policy should address statewide and departmental indirect costs, the preparation of the indirect cost proposal, and should be consistent with the provisions of Minn. Stat. Section 16A.127 and the specific requirements for each federal program.

*RECOMMENDATION IMPLEMENTED.* By December 1986, DNR had developed a draft policy and procedures for recovery of indirect costs. This recommendation has not received final acceptance from the United States Department of Interior.



STATE OF  
**MINNESOTA**  
**DEPARTMENT OF NATURAL RESOURCES**

500 LAFAYETTE ROAD, ST. PAUL, MINNESOTA 55146

OFFICE OF THE  
COMMISSIONER

DNR INFORMATION  
(612) 296-6157

February 20, 1987

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

Dear Mr. Nobles:

First, I want to make some observations about the substantial progress made by this department in financial management as documented by the F.Y. 1986 management letter. As of this writing, of the 33 recommendations for F.Y. 1985, all but 4 have been completely or substantially implemented as of today. The F.Y. 1986 audit contains 15 recommendations; of these, 5 pertain to one program (Boat and Water Safety) and several more relate to one issue (the full implementation of cost accounting systems). None of these recommendations indicate serious financial problems and will soon be resolved. This dramatic improvement over the past few years is the result of my strong and continuing commitment to financial management in the Department of Natural Resources.

Following is a response to each finding contained in the preliminary management report for the Department of Natural Resources for the period July 1, 1985 through June 30, 1986.

Recommendation #1

The Forestry and Fish and Wildlife Divisions' analyses will be completed and proposals submitted to the Financial Management Bureau before July 1, 1987. The Parks and Recreation Division will submit a deposit schedule for park receipts before July 1, 1987. In addition, the Department of Finance is seeking legislation to allow exemption of the \$250 per day deposit requirement where appropriate, such as remote locations.

Persons Responsible: Joyce Nyhus, Wilma MacKenzie, John Winter, John Bouthilet  
Completion Date: July 1, 1987

Recommendation #2

As recommended, the counter cash register tape totals and the cross-country ski license receipts were reconciled beginning February 1, 1987. In addition, the License Bureau will reconcile the licenses printed but not issued as part of the 1986 annual reconciliation.

Person Responsible: Margaret Winkel  
Completion Date: March 1, 1987

Recommendation #3

Implementation of the cost accounting system will enable the Forestry Division to prepare and submit federal reimbursement requests based on actual costs each month.

Person Responsible: Joyce Nyhus  
Completion Date: March 1, 1987

Recommendation #4

The Division of Fish and Wildlife is currently in the process of resolving technical difficulties associated with downloading cost data from the statewide accounting system and verifying that cost data is being correctly input during the payroll process. Implementation of the cost accounting system will be completed by June 30, 1987.

Person Responsible: Wilma MacKenzie  
Completion Date: June 30, 1987

Recommendation #5

Beginning October 1, 1986, LAWCON reimbursement requests are submitted monthly, unless the billable amount is less than \$10,000. The new cost accounting system will allow the Forestry Division to bill more frequently for the Cooperative Forestry Program (see #3). Fish and Wildlife Restoration reimbursements are now requested on a bi-weekly letter of credit for all major programs. The Firearm Safety Program is now fully staffed and these billings will be on a bi-weekly basis by June 30, 1987.

Persons Responsible: Joe Hiller, Joyce Nyhus, Wilma MacKenzie, Cathy Brehm  
Completion Date: June 30, 1987 (Firearm Safety)

Recommendation #6

The Director of Fish and Wildlife will inform all division employees by memo of the policy and procedures relating to compensatory time.

Persons Responsible: Larry Shannon, Wilma MacKenzie  
Completion Date: March 13, 1987

Recommendation #7

The equipment usage rates in Operational Order #46 will be updated annually.

Person Responsible: Norm Kordell  
Completion Date: Annually

Recommendation #8

Firearm Safety Program reimbursement requests and supporting documentation prepared by the Fish and Wildlife and Enforcement Divisions will include the project on which equipment was used.

Persons Responsible: Wilma MacKenzie, Cathy Brehm  
Completion Date: March 13, 1987

Recommendation #9-13

The DNR will conduct a comprehensive analysis of the Boat and Water Safety Program. Policies and procedures will be developed to ensure the program is run in accordance with federal requirements and the new Federal Aid Coordinator will provide overall program monitoring. Several specific recommendations have already been implemented:

- Supporting cost documentation will be based on the statewide accounting system.
- Financial status reports will be filed quarterly beginning with the October through December, 1986, report filed February, 1987.
- Requests for advance will be submitted monthly to keep cash balances at a minimum.

Persons Responsible: Kim Elverum, Crystal Wenum, Al Yozamp  
Completion Date: October 1, 1987

Recommendation #14

The Southern Service Center has recently installed and is now completing testing of an automated consumable inventory system which will facilitate accurate recording of purchases and withdrawals from inventory. This system, along with established inventory management procedures, will ensure that inventory records reflect accurate data.

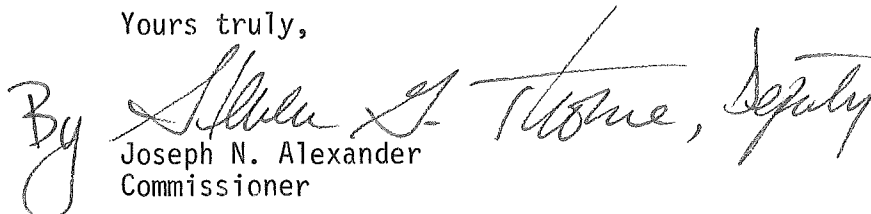
Person Responsible: Norm Kordell  
Completion Date: May 1, 1987

Recommendation #15

An uncollectible accounts receivable listing has been prepared and will be forwarded to the Attorney General or Executive Council before April 15, 1987.

Person Responsible: William Berndt  
Completion Date: April 15, 1987

Yours truly,

By  Deputy  
Joseph N. Alexander  
Commissioner

b1  
cc: Steven Thorne  
Eugene Gere  
Karen Loechler  
Ray Hitchcock  
Allen Yozamp