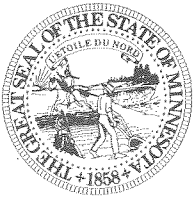


**IRON RANGE RESOURCES
AND REHABILITATION BOARD
MANAGEMENT LETTER
FISCAL YEAR 1987**

DECEMBER 1987

**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

Mr. Jack DeLuca, Commissioner
Iron Range Resources and Rehabilitation Board
Highway 53 South
P.O. Box 441
Eveleth, Minnesota 55734

Dear Commissioner DeLuca:

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 1987 financial statements. The scope of our work was 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; 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. Even though no auditing of federal programs was done in your department during our fiscal year 1987 audit, the statewide single audit coverage still satisfies the federal government's financial and compliance audit requirements for all federal programs administered by your department in fiscal year 1987.

This management letter contains the recommendations developed during this audit. A summary of the progress on all audit recommendations developed during our 1986 statewide audit is attached.

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

1. The IRRRB has not transferred the monies in the secondary reserve account to the State Board of Investment.

The IRRRB has established a common bond fund program to stimulate economic development in Northeastern Minnesota. The authority was granted in 1983 under Minn. Stat. Section 298.2211, Subd. 1. To support the Common Bond Fund, the Legislature set aside \$4.5 million as a secondary reserve. Consequently, there are two distinct sources of monies in the Bond Fund Program:

- the proceeds from the sale of bonds; and
- the appropriation by the Legislature to fund the secondary reserve account.

The monies from both sources are invested by a trustee chosen by the IRRRB. The bond proceeds are not state monies, but a question arose over whether the secondary reserve account should be under the control of the IRRRB or whether it is state money and should therefore be invested by the State Board of Investment (SBI). The Attorney General's Office determined that the monies in the secondary reserve are indeed state monies and should therefore be invested by the SBI. The Attorney General notified the IRRRB of this determination in a memo dated February 11, 1987.

Despite the Attorney General's ruling, the money in the secondary reserve has remained with the trustee. In October 1987, the IRRRB requested that the Attorney General draft documents for the transfer of the secondary reserve funds. The issue presently remains unresolved.

RECOMMENDATION

- The IRRRB should complete the transfer of the secondary reserve account funds from the trustee to the SBI for investment.

2. PRIOR RECOMMENDATION PARTIALLY IMPLEMENTED: Financial reporting of the Giant's Ridge ski area needs improvement.

IRRRB operates the Giant's Ridge ski facility near Biwabik, Minnesota. The facility has been operated by IRRRB since November 1984.

Since Giant's Ridge is operated with public funds, IRRRB has an obligation to provide the Legislature and the general public with accurate and comparable financial information concerning the facility. We therefore recommended that financial statements be prepared for Giant's Ridge in accordance with generally accepted accounting principles.

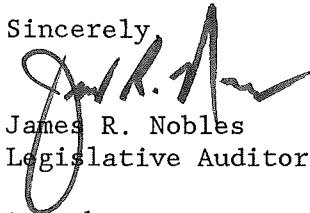
Financial statements have been prepared for fiscal years 1984 and 1985. IRRRB is currently preparing comparative statements for fiscal years 1986 and 1987. We have not reviewed the statements. However, a local independent certified public accounting firm is advising IRRRB on statement preparation.

RECOMMENDATION

- IRRRB should complete the preparation of Giant's Ridge financial statements in accordance with generally accepted accounting principles.

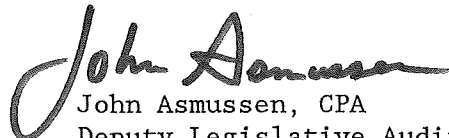
Thank you for the cooperation extended our staff during this audit.

Sincerely,


James R. Nobles
Legislative Auditor

Attachment

December 18, 1987


John Asmussen, CPA
Deputy Legislative Auditor

IRON RANGE RESOURCES AND REHABILITATION BOARD

STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND
PROGRESS TOWARD IMPLEMENTATION

The IRONWORLD division did not follow proper procedures for awarding construction projects.

1. Bids should be solicited and contracts written prior to the start of the work in accordance with statute.

RECOMMENDATION IMPLEMENTED. A review of the contracts for fiscal year 1987 Ironworld and Giant's Ridge construction showed that bids were solicited and contracts awarded prior to beginning construction.

2. Encumbrances should be established prior to incurring state obligations.

RECOMMENDATION IMPLEMENTED. A review of the construction contracts showed that encumbrances had been established prior to incurring construction costs.

Financial reporting of the Giant's Ridge Ski Area needs improvement.

3. IRRRB should prepare annual financial statements for Giant's Ridge in accordance with generally accepted accounting principles.

RECOMMENDATION PARTIALLY IMPLEMENTED. See current finding #2.

Documentation and approvals for overtime worked need improvement.

4. IRRRB should approve in advance and document all overtime hours worked.

RECOMMENDATION IMPLEMENTED. We tested a sample of timesheets and requests for leave and overtime from November 1986 to June 1987. All requests for overtime had advance approval.

A portion of the fiscal year 1985 statewide indirect costs have not been paid to the General Fund.

5. IRRRB should pay the remaining balance of the indirect costs or seek a waiver from the Department of Finance.

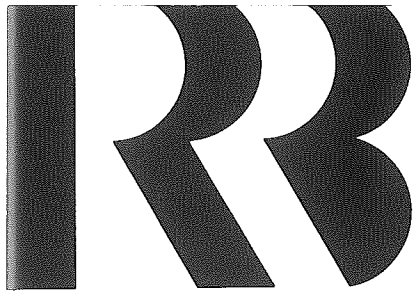
RECOMMENDATION IMPLEMENTED. The IRRRB paid the remaining balance of indirect costs totaling \$36,614 on September 25, 1987.

IRON RANGE RESOURCES AND REHABILITATION BOARD

The ski equipment rental agreement with the private concessionaire needs revision.

6. The contract with Northern Lights Sports should be revised to cite IRRRB as recipient of any receipts resulting from unredeemed coupons.

RECOMMENDATION WITHDRAWN. A change in equipment rental procedures at Giant's Ridge in fiscal year 1987 has reduced the number of unredeemed coupons. Individuals now have the option of purchasing a package that includes ski rental or one that does not include equipment rental.



iron range resources and rehabilitation board

December 18, 1987

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

Dear Mr. Nobles:

I have reviewed your draft management letter of December 7, 1987 and I wish to respond to the items for which you have recommended changes in management procedures.

1. **The IRRRB should complete the transfer of the secondary reserve account funds from the trustee to the SBI for investment.** I concur with this recommendation. However, I am not sure what more the IRRRB can do to expedite this transfer. As documented by the attached information, IRRRB staff has worked with the Bond Counsel, the Trustee, the Attorney General's Office and the State Board of Investment to complete this transfer. I have signed the Amendment to Basic Indenture and submitted same to the Trustee. This document should provide the legal authorization required by the Trustee to remit those funds to the State Board of Investment. It appears this transfer may, in fact, be completed prior to release of your final audit report. Therefore, I question whether this recommendation is actually necessary or appropriate.



AN EQUAL OPPORTUNITY EMPLOYER

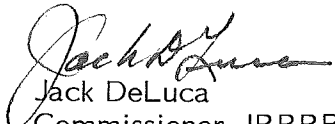
highway 53 south-p.o.box 441 eveleth, minnesota 55734 (218) 744-2993

Mr. James Nobles
December 18, 1987
Page 2

2. **IRRRB should complete the preparation of Giants Ridge financial statements in accordance with generally accepted accounting principles.** Comparative financial statements for fiscal years 1984, 85 and 86 have been prepared; fiscal year 1987 will be prepared by February 15, 1988. These statements will be reviewed by a local CPA firm in early March 1988, and copies of the statements will be sent to your office as soon as this review is completed.

The staff of IRRRB appreciates the courtesy and professionalism displayed by your staff during the conduct of the audit of this agency.

Sincerely,


Jack DeLuca
Commissioner, IRRRB

JD/lks

Attachments

The IRRRB response included attachments regarding their efforts to have the secondary reserve funds invested through the State Board of Investment. These items are on file in our office.