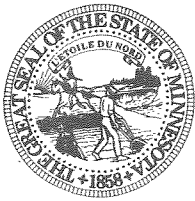


**DEPARTMENT OF NATURAL RESOURCES
MANAGEMENT LETTER
FISCAL YEAR 1987**

FEBRUARY 1988

**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. 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 1987 financial statements and 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);
 - Federal Aid in Fish Restoration (Dingell Johnson CFDA #15.605);
 - Federal Aid in Forestry Incentive (CFDA #10.064); 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 1987. 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 a reiteration of our prior audit finding which has not yet been resolved. Progress on implementing this finding will be reviewed during our audit next year. 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, 1986, dated March 1987.

1. PRIOR FINDING PARTIALLY RESOLVED: The Fish and Wildlife Division needs to complete the implementation of the cost accounting system.

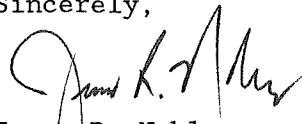
The Fish and Wildlife Division maintains manual records to accumulate expenditures for federal projects (Pittman Robertson, CFDA #15.611 and Dingell Johnson, CFDA #15.605) because the expenditures are combined on the statewide accounting (SWA) system. The division is continuing to develop and implement a cost accounting system. In the past fiscal year DNR has made significant progress, with payroll being the only portion of the system that is not operational. DNR believes the new system will eliminate the need for manual recordkeeping. The new system will enable the division to summarize state and federal costs by project, therefore reimbursement requests can be submitted in a more efficient manner.

RECOMMENDATION


- DNR Fish and Wildlife Division should complete the implementation of the cost accounting system for payroll.

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

Sincerely,



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

Attachment

February 25, 1988

DEPARTMENT OF NATURAL RESOURCES

STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND
PROGRESS TOWARD IMPLEMENTATION

DNR has not studied the feasibility of establishing state depositories for receipts collected throughout the state.

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

RECOMMENDATION IMPLEMENTED: In August 1987, the Forestry Division began a new computer generated billing system for timber sales. This system requires payments to be sent directly to the St. Paul central office. Use of this system has enabled the timber sales receipts to be deposited promptly. Also, the Parks and Recreation Division conducted a survey of the state parks, documenting the deposit procedures and costs of making more frequent deposits. The Department of Finance has approved a deposit schedule for each state park. In addition, Fish and Wildlife Division has changed their procedures so that checks are deposited promptly, rather than being held during the commercial fishing license application process.

An inadequate separation of duties exists in the processing of counter and cross-country ski receipts in the License Bureau.

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.

RECOMMENDATION IMPLEMENTED: In February 1987, the License Bureau began reconciling cross-country ski license receipts to Financial Management's batch balance reports.

The federal reimbursement requests need to be submitted more frequently and have adequate support for certain programs.

3. The Forestry Division should prepare federal reimbursement requests for Cooperative Forestry programs based on actual costs.

RECOMMENDATION IMPLEMENTED: Beginning in April 1987, the Forestry Division began to prepare the federal reimbursement requests based on actual costs for all federal programs. The actual costs are taken from Forestry's cost accounting system.

4. The DNR Fish and Wildlife Division should complete the implementation of the cost accounting system for payroll and supplies expenses.

RECOMMENDATION PARTIALLY IMPLEMENTED: See current finding #1.

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.

RECOMMENDATION SUBSTANTIALLY IMPLEMENTED: Since March 1987, the Fish and Wildlife Division has submitted reimbursement requests approximately biweekly. In addition, the Forestry Division has attempted to submit timely reimbursement requests. Due to the current federal grant process, there is a time lag between the date Forestry pays for expenditures and the date the grant amount is approved and funded. Therefore, Forestry is unable to submit timely requests in the first half of the state fiscal year. The LAWCON (Outdoor Recreation Acquisition development and Planning Program, CFDA #15.916) program has improved the submission of federal reimbursement requests to be more timely.

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

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

RECOMMENDATION IMPLEMENTED. In September 1987, the director of the Fish and Wildlife Division sent a memorandum to their staff regarding the proper recording of compensatory time earned and taken. A test of payroll verified the proper recording of compensatory time by Fish and Wildlife staff.

DNR has not updated equipment use rates contained in federal reimbursement requests.

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.

RECOMMENDATION IMPLEMENTED. As of July 1, 1987, the DNR Fleet Management program replaced the equipment rate schedule. This new system bills equipment users monthly based on a mileage or hourly rate. The Fleet Management rates are updated annually. The DNR Fish and Wildlife Division monitors all rates submitted by the field offices to ensure the proper rate is being used for each type of vehicle.

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.

RECOMMENDATION IMPLEMENTED. During fiscal year 1987, the DNR Firearm Safety Program monthly reports showed equipment use for federal programs as a percentage of the total equipment use. This percentage was verified to the percentage of time claimed for specific federal projects.

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

9. DNR should determine the disposition of the \$593,221 balance in the federal BSP account.

RECOMMENDATION SUBSTANTIALLY IMPLEMENTED. DNR determined that the \$593,000 balance in the BSP account was federal money. They began reducing the balance in the account in July 1987. The balance has been reduced to about \$150,000.

10. Adequate supporting documentation, including statewide accounting reports, should be maintained for federal requests for advance or reimbursement and financial status reports.

RECOMMENDATION IMPLEMENTED. Beginning in July 1987, the BSP submitted advance requests based on estimated salaries and expenditures using the Statewide Accounting Manager's Financial Report, Open Encumbrance Report, and Payroll Posting Audit Trail. Also, a summary of anticipated expenditures for the regions is used to estimate monthly expenditures.

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.

RECOMMENDATION IMPLEMENTED. In February 1987, BSP filed the first quarter Financial Status Report for federal fiscal year 1987. Subsequently, these reports have been filed each quarter.

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.

RECOMMENDATION IMPLEMENTED. Since July 1987, BSP advance requests have been submitted on a monthly basis. A worksheet was developed to anticipate cash needs for the upcoming month. This worksheet has enabled BSP to reasonably estimate the cash advance request.

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.

RECOMMENDATION IMPLEMENTED. BSP receives a quarterly report showing the actual hours spent on the program. This report is used to determine the actual BSP direct cost. Adjustments are made to the BSP account when needed.

Inventory records at the Southern Service Center (SSC) are not accurate.

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.

RECOMMENDATION IMPLEMENTED. The Southern Service Center installed an automated inventory system which improved the recording and accounting of inventory. Cycle counts are performed periodically resulting in inventory accuracy of at least 97 percent consistently.

Uncollected accounts receivable related to timber sales have not been written off.

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

RECOMMENDATION IMPLEMENTED. On June 25, 1987, the DNR Forestry Division submitted a list to the Attorney General's Office of uncollectible accounts receivable to be written off. DNR received approval and submitted the list of uncollectible accounts to the Department of Finance.



STATE OF
MINNESOTA

DEPARTMENT OF NATURAL RESOURCES

500 LAFAYETTE ROAD, ST. PAUL, MINNESOTA 55155-4037

OFFICE OF THE
COMMISSIONER

DNR INFORMATION
(612) 296-6157

February 25, 1988

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

Dear Mr. Nobles:

The single audit for the DNR for F.Y. 1987 contained no new findings; and of the 15 prior audit recommendations, all but one were satisfactorily resolved. That prior finding states that "DNR Fish and Wildlife Division should complete the implementation of the cost accounting system for payroll." The purpose of this letter is to outline how we intend to complete the project.

The DNR is currently engaged in an initiative to implement cost accounting on a department-wide basis. An outside consultant has been obtained to develop the conceptual framework, and outside consultants will be hired to develop the system software. The main elements of this system will be:

1. Cost data will be input into the statewide accounting system as part of the payroll process.
2. This data will be downloaded to the DNR System/38.
3. Software will be developed to generate management reports.
4. The entire Department will utilize this coding system so that department-wide information (as well as program information) is available for making management decisions.

We hope to initiate development of this system before the end of this biennium. In the meantime, we intend to complete the Fish and Wildlife cost accounting project for federal aid documentation.

The Division of Fish and Wildlife has made substantial progress in cost accounting in the last year: a cost code structure was developed and all personnel are coding time, cost code data is input into the statewide accounting system as part of the payroll process, data is downloaded from the statewide accounting system into the microcomputer in the DNR, and reports are being generated. The remaining problems are administrative: formatting reports, error detection and correction, and training. The Management Analyst position needed to run the system will be filled shortly. The person responsible will be Wilma MacKenzie, and the date for complete implementation will be September 30, 1988. However, consideration is being given to obtaining a consultant that would move the implementation date to June 30, 1988.

Yours truly,

Joseph N. Alexander
Commissioner