DEPARTMENT OF NATURAL RESOURCES

BEMIDJI - REGION I

FINANCIAL AND COMPLIANCE AUDIT

FOR THE THREE YEARS ENDED JUNE 30, 1987

**SEPTEMBER 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

Representative Phillip J. Riveness, Chairman Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Joseph Alexander, Commissioner Department of Natural Resources

Mr. Merlyn Wesloh, Regional Administrator Department of Natural Resources, Bemidji Region

# Audit Scope

We have completed a financial and compliance audit of the Department of Natural Resources Region 1, for the three years ended June 30, 1987. Section I provides a brief description of the region's activities and finances. Our 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 audit procedures as we considered necessary in the circumstances. Field work was completed on June 10, 1988.

The objectives of this audit were to:

- study and evaluate major internal accounting control systems at the region, in effect as of May 1, 1988;
- evaluate the recording and reporting of financial transactions on the statewide accounting system for the period July 1, 1984 through June 30, 1987;
- verify that financial transactions were made in accordance with applicable laws, regulations, and policies, for the period July 1, 1984 through June 30, 1987; and
- determine the status of prior audit recommendations.

# Management Responsibilities

The management of the Department of Natural Resources Region 1 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.

Representative Phillip J. Riveness, Chairman Members of the Legislative Audit Commission Mr. Joseph Alexander, Commissioner Mr. Merlyn Wesloh, Regional Administrator Department of Natural Resources, Bemidji Region Page 2

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 Department of Natural Resources Region 1 is 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 Region 1. The purpose of our testing of transactions was to obtain reasonable assurance that the Department of Natural Resources Region 1 had, in all material respects, administered their programs in compliance with applicable laws and regulations.

## Conclusions

In our opinion, except for the issues addressed in Section II, findings 1-4, the Department of Natural Resources Region 1's system of internal accounting control in effect on May 1, 1988, 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 three years ended June 30, 1987, the Department of Natural Resources Region 1 properly recorded in all material respects, its financial transactions on the statewide accounting system.

In our opinion, for the three years ended June 30, 1987, except for the issue raised in Section II, finding 1, the Department of Natural Resources Region 1 administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

This audit report includes both the recommendations developed during this audit and reiteration of our prior audit recommendations which have not yet been resolved. Prior audit recommendations repeated in this report are denoted under the caption "Prior Finding Not Resolved."

Representative Phillip J. Riveness, Chairman Members of the Legislative Audit Commission Mr. Joseph Alexander, Commissioner Mr. Merlyn Wesloh, Regional Administrator Department of Natural Resources, Bemidji Region Page 3

The recommendations included in this report are presented to assist the region in resolving the audit findings and in improving accounting procedures and controls. We will be monitoring and reviewing the Department of Natural Resources Region 1's progress on resolving these findings. A summary of the progress made on all audit recommendations discussed in our last audit report covering the year ended June 30, 1984, dated August 9, 1985, is shown in Section III entitled "Status of Prior Audit Recommendations and Progress Toward Implementation."

We would like to thank the Department of Natural Resources Region 1 staff for their cooperation during this audit.

James R. Nobles
Legislative Auditor

September 6, 1988

John Asmussen, CPA

Deputy Legislative Auditor

# BEMIDJI REGION

# TABLE OF CONTENTS

		<u>Page</u>
I.	INTRODUCTION	1
II.	CURRENT FINDINGS AND RECOMMENDATIONS	2
III.	STATUS OF PRIOR AUDIT RECOMMENDATIONS AND PROGRESS TOWARD IMPLEMENTATION	5
	AGENCY RESPONSE	7

## AUDIT PARTICIPATION

The following members of the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA Margaret Jenniges, CPA Carl Otto, CPA John Wicklund Deputy Legislative Auditor Audit Manager Auditor-In-Charge Staff Auditor

## EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Department of Natural Resources Region 1 office on June 10, 1988:

Max Hirt Merle DeBoer Region Business Manager Region Park Supervisor

## BEMIDJI REGION

## I. INTRODUCTION

The Department of Natural Resources (DNR) has six regional offices throughout Minnesota. The Region I office of the DNR is located in Bemidji. Currently, there are seven functional DNR program-divisions administered through Bemidji. These divisions are Fisheries, Forestry, Parks and Recreation, Wildlife, Waters, Enforcement, and Trails and Waterways. These divisions have offices and personnel throughout northwestern Minnesota to administer the various division programs. The division offices all have supervisors who report to the regional division directors in Bemidji. The regional division directors report directly to the St. Paul office for program matters. There is also a regional administrator in Bemidji who oversees the general administrative matters for the various divisions and the business office.

Bemidji regional expenditure for the fiscal years under review were:

<u>Fiscal Year</u>	Amount
1985	\$13.5 million
1986	\$13.4 million
1987	\$14.4 million

#### BEMIDJI REGION

#### II. CURRENT FINDINGS AND RECOMMENDATIONS

1. PRIOR FINDING NOT RESOLVED. Purchase orders are not consistently reviewed or approved by the respective region supervisors.

Proper documentation for purchases, as specified by Department of Finance procedures, includes purchase requisitions, purchase orders, receiving reports and vendor's invoices. In the past, Region 1 did not complete purchase orders. Instead field staff submitted vendor's invoices for payment. In early fiscal year 1988, the department received expanded authority for local purchases up to \$1,500 from the Department of Administration, Materials Management Division. The purpose of this authority is to allow agencies immediate access to small item purchases to facilitate need. Within Region 1, all state parks, area, and district offices, have been delegated this authority. In conjunction with this agreement the department is required to complete purchase orders for all purchases over \$100. With expanded purchase authority a minimum of three bids from the trade area is also required.

Purchase orders are completed by field personnel, but not all purchases are approved by the regional supervisors before payment. The distance to the region office prevents the regional supervisor from formally approving every purchase in advance. Rather than the regional supervisor approving all purchases in advance a policy could be developed delegating this authority to certain positions in the state parks, area, and district offices. The authority could be limited to a maximum total dollar amount that can be spent without a supervisors approval or authority could be excluded for certain items considered to be sensitive. Because the regional division supervisors are ultimately responsible for monitoring purchases for their division a method of performing this monitoring should be established. One possible method would be reviewing the statewide accounting system expenditure by AID report. Any unusual transactions should be questioned.

In addition, Itasca State Park is not completing purchase orders for all purchases of more than \$100. Park staff informed us that purchase orders are not completed for certain items such as food for Douglas Lodge and other goods for resale in the park such as souvenirs. Under Minn. Stat. Section 16B.08, Subd. 7, items for resale are exempt from competitive bidding, but purchase orders are still required.

# RECOMMENDATIONS

- A policy should be developed delegating purchase approvals to the necessary positions in the region. The regional supervisors should monitor purchases made by the division.
- Itasca State Park should complete purchase orders for all purchases greater than \$100, regardless of the types of items purchased.

### BEMIDJI REGION

2. PRIOR FINDING NOT RESOLVED: There is an improper segregation of duties for the imprest cash fund.

The Region 1 office maintains a \$15,000 imprest cash fund to pay firefighting payroll costs, postage, and other miscellaneous expenditures. During the fire season, the authorized limit is temporarily increased to insure prompt payment of firefighters. Currently, the business manager and account clerk have responsibility for signing checks. One of them also performs the monthly bank reconciliations.

Proper internal controls require that the responsibilities for the imprest cash account and performing the monthly bank reconciliations be segregated to prevent and detect any errors or irregularities. These weaknesses increase the risk that unauthorized or improper transactions could occur and not be detected.

#### RECOMMENDATION

- The imprest cash fund bank reconciliations should be reviewed and approved by someone other than the personnel responsible for the fund.
- 3. <u>All funds received at Douglas Lodge in Itasca State Park are not deposited into a state depository at the time of receipt.</u>

Douglas Lodge is a 48 unit lodge located within Itasca State Park. The lodge is operated by state employees and is open from Memorial Day weekend through the first weekend in October. Advance reservations are usually required with reservations taken beginning April 1 of each year. Douglas Lodge maintains a checking account for advance room reservation deposits. An initial deposit of \$25 is required to reserve a room. This advance is deposited into the Douglas Lodge reservation account until a refund has been requested or the reservation has been honored. When a refund is requested, the amount of the advance less \$5 is returned by writing a check on the account. When the reservation is honored, a check is written from the account to the Itasca State Park for deposit to the state depository. During calendar years 1985, 1986, and 1987, there were 69, 87, and 64 refunds issued for approximately \$2,100, \$2,100, and \$1,500, respectively.

The checking account is a non-interest bearing account in Bemidji, approximately 35 miles from the park. The advance receipts are deposited to this account from April through November each year. Advance receipts through June 7, 1988 were approximately \$23,000. The checkbook balance as of June 7, 1988 was \$19,609. While all other park receipts are deposited weekly in accordance with the deposit schedule agreed to by the Department of Finance and the Department of Natural Resources, deposits to the reservation account are not made on a timely basis. Also the state is losing income since this is a non-interest bearing account. All state funds received should be deposited into state depositories.

#### BEMIDJI REGION

There does not appear to be a need for this account. Refunds can be issued through the statewide accounting system in a timely manner. To better utilize park receipts and ensure prompt depositing of the funds, this account should be closed and statewide accounting used to process room deposits and refunds.

#### RECOMMENDATION

- The Douglas Lodge checking account should be closed and all room reservation receipts deposited into the state treasury. Reservation refunds should be processed through the statewide accounting system.
- 4. <u>State parks do not stamp a restrictive endorsement on checks when received.</u>

During our review of cash procedures at Itasca State Park and at Lake Bemidji State Park, it was determined that incoming checks are not restrictively endorsed until they are deposited. Depending on the deposit schedule for each park, checks can be stored at the park for up to a week before the endorsement is stamped on the checks. In addition, Itasca State Park headquarters contains a cash drawer which serves as a place to gather receipts, particularly during the winter months when the contact stations are not staffed. During a cash count of this drawer, we noted two second party checks were cashed for employees. These checks were endorsed in blank by the transferor. Since the park does not stamp a restrictive endorsement on checks until the deposit is prepared, these checks are at a greater risk because anyone can negotiate them. A restrictive endorsement on checks at the time of receipt would prevent any unauthorized use of these checks.

#### RECOMMENDATIONS

- State parks should place stamped restrictive endorsements on all checks immediately upon receipt.
- State parks should not allow employees to cash checks with park funds.

# BEMIDJI REGION

# III. STATUS OF PRIOR AUDIT RECOMMENDATIONS AND PROGRESS TOWARD IMPLEMENTATION

# Internal controls over receipts require strengthening and revision.

- 1. The region, area, and central offices should work together to develop comprehensive and uniform procedures to account for all forestry receipts. The procedures should include:
  - A. working with the Department of Finance to establish a local state depository for each area forestry office; and
  - B. developing standard forms and procedures, similar to those currently used at the Park Rapids area office, to properly account for forestry receipts. The receipt documentation should be routinely reconciled to each deposit by someone other than the individual preparing and making the deposits.
- 2. The DNR central, regional and area forestry offices should work with the Department of Finance to determine if a more acceptable method of collecting and depositing forest campground receipts exists.
- 3. The Lake Bemidji State Park personnel should reconcile all deposits to the applicable cash register tapes to ensure all receipts are properly deposited.
- 4. State park personnel should deposit all receipts aggregating \$250 or more on a daily basis or work with the Department of Finance to establish an acceptable deposit plan and schedule.

RECOMMENDATIONS 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. Area forestry offices obtain a money order for cash collected at the forestry campgrounds. These receipts are promptly forwarded to the central office for deposit. 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 Lake Bemidji State Park.

<u>Purchase orders are not routinely used and not all purchases are approved</u> by the regional supervisors.

5. Purchase orders should be used for all purchases as required by Department of Finance procedure 06:04:04.

# BEMIDJI REGION

# RECOMMENDATION NOT IMPLEMENTED. See current finding #1.

6. All purchase orders should be reviewed and signed by the respective supervisors.

RECOMMENDATION NOT IMPLEMENTED. See current finding #1.

# There is an improper separation of duties for the imprest cash fund.

7. The imprest cash fund bank reconciliations should be performed by someone other than the personnel responsible for the fund.

RECOMMENDATION NOT IMPLEMENTED. See current finding #2.

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DNR INFORMATION (612) 296-6157

September 6, 1988

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

Dear Mr. Nobles:

The purpose of this letter is to outline the actions to be accomplished to resolve the recommendations in the recently concluded audit of our Bemidji Region for the period of July 1, 1984 thru June 30, 1987.

RECOMMENDATION #1: Region 1 presently distributes copies of the monthly Expenditure by AID report to each discipline supervisor who reviews the report and questions unusual transactions made by employees authorized to make purchases. Items purchased for resale do not always have purchase orders. The DNR is now in the process of finalizing Operational Order #44 that will govern all purchasing. It will contain uniform procedures for approval of purchases for all regions and the central office, and will also address the issue of items for resale.

Persons Responsible: Al Yozamp, Financial Management Administrator

Norm Kordell, Field Services Administrator

Implementation Date: December 1, 1988

RECOMMENDATION #2: The Business Manager will prepare the monthly bank reconciliation and will not be involved in either the deposit or check drawing process.

Person Responsible: Max Hirt, Region I Business Manager

Implementation Date: February 1, 1989

RECOMMENDATION #3: We agree that advance reservation deposits should be handled differently. Last season Douglas Lodge returned reservation advances to approximately 100 people. Processing this many refunds through SWA is a cumbersome process. Therefore, all advance reservation receipts will be deposited to the Statewide Accounting System and an impress cash fund will be established to expedite payment of refunds.

Persons Responsible: Max Hirt, Region I Business Manager

Merle Debore, Region I Parks and Recreation Supervisor John Bouthilet, Financial Management Rev. Acct/Budget

Develop. Support

Implementation Date: February 1, 1989

Mr. James R. Nobles, Legislative Auditor September 6, 1988 Page 2

Persons Responsible: Merle Debore, Region I Parks and Recreation Supervisor

Bill Brinker, Parks and Recreation Business Manager

Implementation Date: November 1, 1988

Yours truly,

Joseph N. Alexander

Commissioner