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**DEPARTMENT OF NATURAL RESOURCES  
ROCHESTER REGION  
FINANCIAL AND COMPLIANCE AUDIT  
FOR THE THREE YEARS ENDED JUNE 30 1987**

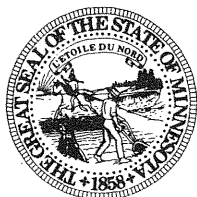
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**AUGUST 1988**

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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

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Representative Phillip J. Riveness, Chairman  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Joseph Alexander, Commissioner  
Department of Natural Resources

Mr. William Johnson, Administrator  
Department of Natural Resources, Rochester Region

**Audit Scope**

We have completed a financial and compliance audit of the Department of Natural Resources Region 5 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 May 5, 1988.

The objectives of this audit were to:

- study and evaluate major internal accounting control systems at the region, in effect as of March 31, 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 5 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. William Johnson, Administrator  
Department of Natural Resources, Rochester Region  
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Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

The management of the Department of Natural Resources Region 5 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 5. The purpose of our testing of transactions was to obtain reasonable assurance that the Department of Natural Resources Region 5 had, in all material respects, administered their programs in compliance with applicable laws and regulations.

### Conclusions

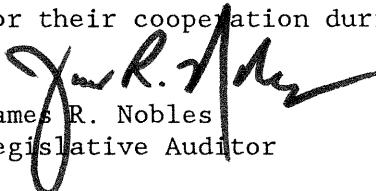
In our opinion, except for the issues addressed in Section II, findings 1 through 3, the Department of Natural Resources Region 5 system of internal accounting control in effect on March 31, 1988, taken as a whole, was sufficient to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization.

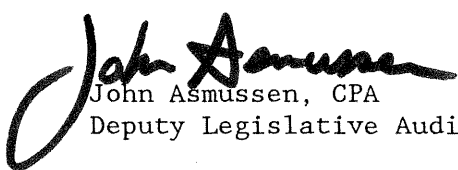
In our opinion, for the period July 1, 1984 through June 30, 1987, the Department of Natural Resources Region 5 properly recorded in all material respects, its financial transactions on the statewide accounting system.

In our opinion, for the period July 1, 1984 through June 30, 1987, the Department of Natural Resources Region 5 administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

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 5 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 5 staff for their cooperation during this audit.

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

August 1, 1988

DEPARTMENT OF NATURAL RESOURCES

ROCHESTER REGION

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AUDIT PARTICIPATION

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

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

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Department of Natural Resources Region 5 office on July 20, 1988:

William Johnson	Administrator
Gary Johnson	Business Manager



## DEPARTMENT OF NATURAL RESOURCES

### ROCHESTER REGION

#### I. INTRODUCTION

The Department of Natural Resources (DNR) has six regional offices throughout Minnesota. The Region 5 office of the DNR is located in Rochester. Currently, there are six DNR divisions (Forestry, Wildlife, Fisheries, Parks, Enforcement, and Waters) and one special unit (Trails and Waterways) that are administered through Rochester, with offices and personnel throughout southeastern Minnesota to administer the various division programs. The division offices all have supervisors who report to the regional division directors in Rochester. The regional division directors report to St. Paul for program matters. There is also a regional administrator in Rochester who oversees the general administrative matters for the various divisions and the business office.

Rochester region expenditures for fiscal year 1987 were \$6 million. Personal services comprised 69 percent of the total expenditures; expense and contractual services accounted for 13 percent; supplies and materials were 7 percent; and miscellaneous expenditures 11 percent.

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### ROCHESTER REGION

#### II. CURRENT FINDINGS AND RECOMMENDATIONS

1. Controls over the receipts process at Whitewater State Park need strengthening.

Whitewater State Park has annual receipts of about \$176,000, consisting mainly of admissions fees for daily passes, overnight camping, and skiing permits. Park users receive prenumbered stickers permitting access to the park for the period and purpose specified. The park also sells firewood and miscellaneous books and souvenirs. Receipts consist predominantly of cash and personal checks and are recorded and placed in a cash register. Manual records listing the various types of permit numbers and the quantities of miscellaneous items sold are maintained. In addition, organizations which have held group meetings at the park are billed, and mail their remittances to the park. These receipts are not recorded on the cash register, nor are manual listings of these mail receipts maintained. In order to establish controls over mail receipts, a listing should be maintained. This listing is also necessary for a complete reconciliation of receipts to deposits.

The procedures for the weekly depositing and reconciliation of receipts were described as follows. The clerk totals the manual ledger by reconciling permit numbers issued during the week and amounts of miscellaneous items sold. The totals obtained are compared to the cash register totals by receipt type and any differences are investigated and reconciled. The reconciled total is subsequently compared to cash and checks actually in the register. The receipts, along with any mail receipts already stored in the safe, are reported to DNR Central Office on the "Weekly Receipts Report," and deposited into a state depository.

No formal documentation has been maintained to support the procedures described above, nor has any independent verification or review of the reconciliations been performed. We reviewed three consecutive weeks' receipts for late March and early April of 1988. We were unable to reconcile totals listed on the cash register tape to the DNR receipts report, which is used as the basis for the deposit. The clerk's reconciliation of the register tape to the manual records was not documented and the clerk was unable to reconstruct the reconciliation. A reconciliation of receipts is a fundamental part of the process for ensuring accuracy and completeness of receipts. Amounts deposited should be readily traceable to sources where the receipt was first recorded, whether it be cash register tape or mail listing. As mentioned earlier, some record of mail receipts must be maintained to provide a basis for reconciling receipts to permits issued and deposits made. In addition, the reconciliation should include a comparison to the receipt figures shown on the statewide accounting receipts reports.



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#### RECOMMENDATIONS

- Whitewater State Park should maintain a listing of all mail receipts for proper verification of park deposits.
  - Whitewater State Park should formally document the reconciliation of the cash register tapes and manual records to the deposits made and to the statewide accounting system's receipts reports. This reconciliation should be independently reviewed for accuracy and completeness.
2. PRIOR AUDIT FINDING NOT RESOLVED: Purchases are not always approved by regional supervisors.

The regional program divisions have offices at various locations throughout the 11 county area in southeastern Minnesota. The distance to the region office prevents the regional supervisor from formally approving every purchase in advance. Typically, area and district supervisors will phone the regional supervisor for verbal approval of the intended purchase. All purchases are made with a department purchase order or a field purchase order. Copies of the purchase order and invoices are then sent to the regional office in Rochester for payment.

The regional supervisors stated that they review the purchase orders from their respective divisions before payment. However, the signature of the appropriate supervisor of the regional office was not found on 73 percent (11 of 15) of the purchase orders tested.

Since the region supervisors are familiar with their program division needs and responsible for their budgets, they would be in the best position to review the purchases made by their division personnel. The regional supervisor's signature on the purchase order would provide additional assurance that the purchase was proper. Alternatively, a notation or memo on the purchase order detailing verbal approval for the purchase could be completed by division personnel making the request. This could be initialed by the region supervisor once the purchase order is received. Without this signed approval, there is limited evidence that the purchase was properly authorized.

#### RECOMMENDATION

- All purchase orders should be reviewed and signed by the respective supervisors indicating approval of the purchase.

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#### 3. Solicitation of bids under local purchase authority is not adequately documented.

The purpose of authority for local purchase (ALP) is to allow agencies immediate access to small item purchases. The authorized limit of \$100 was revised in August 1987 when DNR received approval from the Department of Administration for an expanded ALP of \$1,500. With this authority, DNR can seek local outlets for the purchasing of items subject to the ALP authority, up to a maximum of \$1,500. As a condition of the new ALP program, ten percent of the dollars expended on ALP must be made through certified socially and economically disadvantaged (SED) vendors. The purpose of this program is to provide opportunity for small, and minority-owned businesses to participate in the purchases made by the state.

DNR area, district, and park supervisors, acting as the state's purchasing agent, are required to solicit three bids from the local trade area when contemplating a purchase under ALP. Special consideration is to be made for known SED vendors in the area. Our review of department purchase orders indicated seven of fourteen instances in which the purchase order and other records we sought contained no information as to how a particular vendor was selected. Several supervisors stated they made calls for bids but did not list these quotes on the purchase order. Without adequate documentation, there is no assurance that the lowest bidder was accepted or complied with the SED requirements.

Authority for DNR to continue to operate with this expanded ALP depends on compliance with proper bidding and purchase order completion procedures as promulgated by the Department of Administration. Since regional supervisors review all purchase orders, they would be in the position to monitor compliance with such procurement procedures. The use of bids helps to provide the state with lowest price available for the specifications requested, and helps ensure the most advantageous use of state funds.

#### RECOMMENDATION

- The field supervisors should solicit and document sufficient bids for items under authority for local purchase.

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III. STATUS OF PRIOR AUDIT RECOMMENDATIONS  
AND  
PROGRESS TOWARD IMPLEMENTATION

Purchases are not always approved by the regional supervisors.

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

RECOMMENDATION NOT IMPLEMENTED. See current finding #2.

The area forestry offices do not use consistent or complete procedures in accounting for receipts.

2. The region office should work with the area forestry offices to develop comprehensive and consistent procedures to account for and reconcile all forestry receipts, including:
  - working with the Department of Finance to set up a local depository for each area forestry office; and
  - working with the central DNR office to develop standard forms and procedures which allow for the reconciliation of receipts to the 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.



STATE OF  
MINNESOTA

DEPARTMENT OF NATURAL RESOURCES

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

OFFICE OF THE  
COMMISSIONER

DNR INFORMATION  
(612) 296-6157

August 1, 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 Rochester Region for the period of July 1, 1984 through June 30, 1987.

**RECOMMENDATION #1:** The DNR Division of Parks and Recreation will update their deposit procedures to include stronger controls over receipts as indicated in your report.

Persons Responsible: Bill Brinker, Parks and Recreation Business Manager  
Crystal Wenum, DNR Internal Auditor  
Implementation Date: January 1, 1989

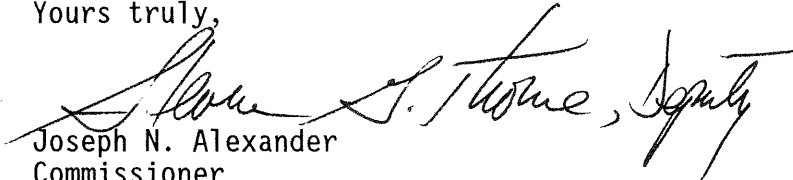
**RECOMMENDATION #2:** We do not necessarily agree that the regional supervisor's signature is required on each purchase order to indicate approval of purchases. Our field offices are in locations remote from the regional headquarters and the large volume of small purchases makes this level of control impractical. 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 central office.

Persons Responsible: Norm Kordell, Field Services Administrator  
Al Yozamp, Financial Management Administrator  
Implementation Date: December 1, 1988

**RECOMMENDATION #3:** Region 5 will require that a copy of the bid tabulation sheet be attached to each purchase order when submitted for payment.

Person Responsible: Gary Johnson, Region 5 Business Manager  
Implementation Date: September 1, 1988

Yours truly,

By   
Joseph N. Alexander  
Commissioner