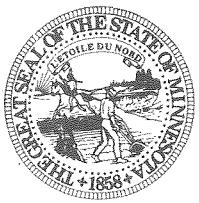


**DEPARTMENT OF NATURAL RESOURCES
MANAGEMENT LETTER
FISCAL YEAR 1988**

MARCH 1989



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, MN 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 1988 financial statements and federal programs. 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;
- 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), and
 - Conservation of Endangered and Threatened Species of Fish, Wildlife, and Plants (CFDA #15.612); and
- the status of the prior audit recommendation.

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 a part of our annual statewide financial and federal compliance audit (single audit). The single audit coverage satisfies the federal government's financial and compliance audit requirements for all federal programs administered by your department in fiscal year 1988. 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.

The finding included in the fiscal year 1987 audit has been resolved. The current recommendations included in this letter are presented to assist you in resolving the audit findings and in improving accounting procedures and controls. Progress on implementing these recommendations will be reviewed during our audit next year.

1. Boat and snowmobile license receipts are not always deposited timely.

The Department of Natural Resources (DNR) license center collects receipts for various license renewal and application fees. When performing the fiscal year-end cash count, we observed that approximately \$400,000 in watercraft and snowmobile license fees was on hand at June 30, 1988, and not deposited until late July. Large volumes of watercraft and snowmobile license fees are received twice a year with June being one of the peak periods. The \$400,000 accounted for about 26,000 applications. License center staff said that the large volume of receipts was resulting in the two to three week delay in depositing.

Minn. Stat. Section 16A.275 states that agencies, "shall deposit receipts totaling \$250 or more in the state treasury daily . . . the commissioner (Finance) may authorize an agency to deposit receipts totaling \$250 or more less frequently than daily for those locations where the agency furnishes documentation to the commissioner that the cost for making daily deposits exceeds the lost interest earnings and the risk of loss or theft of the receipts."

Receipts exceeding \$250 should be deposited daily to assure that the checks do not get lost, misplaced, or stolen. Also, the state loses interest income when deposits are not made daily.

RECOMMENDATION

- The Department of Natural Resources should deposit receipts in accordance with Minn. Stat. Section 16A.275, or obtain a waiver from the Department of Finance.

2. The Department of Natural Resources needs to improve its documentation of costs charged to the Endangered Species Conservation Program (CFDA 15.612).

The Endangered Species Conservation Program is a federal program providing aid to states for the conservation of endangered and threatened species of fish, wildlife, and plants. During fiscal year 1988, the DNR received about \$66,000 from the United States Fish and Wildlife Service for reimbursement of costs incurred on approved projects. The department receives federal reimbursement of 75 or 90 percent of the costs.

The DNR Fish and Wildlife Division administers the program. There are two types of endangered species projects: plants and animals. Endangered animal projects are handled through contracts. Endangered plant projects are completed by state employees. The department received about \$24,000 in federal reimbursements for one of the plant projects in fiscal year 1988. About \$17,000 was for direct payroll costs and the remainder for indirect costs and miscellaneous expenses. The project leader estimated

the hours that employees worked on the project and submitted a report for the number of hours. There is no documentation to determine the actual hours that employees worked on the project. The U.S. Office of Management and Budget's Circular A-87 requires that all payroll expenditures submitted for reimbursement be supported by time and attendance records. DNR implemented a cost accounting system in fiscal year 1989 that allows them to identify payroll costs by project.

RECOMMENDATION

- The DNR should improve documentation of expenses submitted for reimbursement.

3. A subrecipient audit resolution process has not been fully established.

DNR has not been monitoring the single audit coverage of its subrecipients. The Single Audit Act of 1984 requires, in Section 7502 (e) that:

Each State and local government subject to the audit requirements of this chapter, which receives Federal financial assistance and provides \$25,000 or more of such assistance in any fiscal year to a subrecipient, shall--

(A) if the subrecipient conducts an audit in accordance with the requirements of this chapter, review such audit and ensure that prompt and appropriate corrective action is taken on instances of material noncompliance with applicable laws and regulations with respect to Federal financial assistance provided to the subrecipient by the State or local government; or

(B) if the subrecipient does not conduct an audit in accordance with the requirements of this chapter--

(i) determine whether the expenditures of Federal financial assistance provided to the subrecipient by the State or local government are in accordance with laws and regulations; and

(ii) ensure that prompt and appropriate corrective action is taken on instances of material noncompliance with applicable laws and regulations with respect to Federal financial assistance provided to the subrecipients by the State or local government.

The Department of Finance coordinates the monitoring activities of state agencies to ensure that state subrecipients receive sufficient single audit coverage. Finance has issued directives to state agencies concerning their responsibilities in monitoring subrecipients. In July 1988, Finance formalized the directives in the Accounting Operations Manual policy and procedures. In response to this policy, DNR has developed procedures to be followed by the division. However, DNR has not monitored its subrecipients single audit coverage prior to establishing the procedures. Also, DNR has not reviewed individual subrecipients' reports to ensure prompt and corrective action is taken on material findings.

Mr. Joseph N. Alexander, Commissioner
Department of Natural Resources
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RECOMMENDATION

- DNR should ensure that the divisions are monitoring the single audit coverage and audit resolutions of their subrecipients.

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

Sincerely,



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

March 6, 1989



DEPARTMENT OF NATURAL RESOURCES

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

OFFICE OF THE
COMMISSIONER

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

March 6, 1989

DNR INFORMATION
(612) 296-6157

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 the Department of Natural Resources for the period of July 1, 1987 through June 30, 1988.

RECOMMENDATION #1: The delay referred to in this recommendation is for the watercraft and snowmobile registrations. There are two peak periods each year: the watercraft registrations are received in December and January, and most of the snowmobile registrations are received in May and June. These applications must be manually opened and checked before the monies can be processed for deposit. For the recent snowmobile receipts, the License Bureau staff worked over 250 hours of overtime and the backlog was reduced by the end of January. However, it is physically impossible to reduce the backlog enough to enable daily deposits. Therefore, to address this recommendation, we will request a waiver of the daily deposit requirement for watercraft and snowmobile registrations from the Department of Finance as authorized by M.S. 16A.275.

Persons Responsible: Al Yozamp, John Bouthilet, Margaret Winkel
Implementation Date: March 15, 1989

RECOMMENDATION #2: Beginning in F.Y 1989, the Division of Fish and Wildlife fully implemented a computerized cost accounting system using data downloaded from the Statewide Accounting System. Therefore, beginning in F.Y. 1989, all federal reimbursement requests will be based on the cost accounting system which is supported by the payroll timesheets.

Person Responsible: Wilma MacKenzie
Implementation Date: July 1, 1988

RECOMMENDATION #3: As stated in the management letter, the DNR has developed procedures for monitoring subrecipient grants to address this recommendation. The procedure will be explained to business managers and will be part of the Administrative Procedures Manual to be distributed about March 20, 1989.

Person Responsible: Al Yozamp
Implementation Date: March 20, 1989

Yours truly,

By *Joseph N. Alexander, Deputy*
Joseph N. Alexander
Commissioner

AN EQUAL OPPORTUNITY EMPLOYER