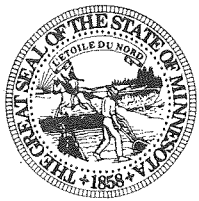


**IRON RANGE RESOURCES  
AND REHABILITATION BOARD  
FINANCIAL AND COMPLIANCE AUDIT  
FOR THE THREE YEARS ENDED JUNE 30, 1988**

**APRIL 1989**





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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Senator John Brandl, Chairman  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Jack DeLuca, Commissioner  
Iron Range Resources and Rehabilitation Board

and

Members of the Iron Range Resources and Rehabilitation Board

**Audit Scope**

We have completed a financial and compliance audit of the Iron Range Resources and Rehabilitation Board for the three years ended June 30, 1988. Section I provides a brief description of the Board'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 Government Auditing Standards, and accordingly, included such audit procedures as we considered necessary in the circumstances. Fieldwork was completed on January 27, 1989.

**Internal Accounting Control Systems**

One objective of this audit was to study and evaluate major internal accounting control systems; payroll, administrative disbursements, loans, grants, and receipts, at the Board office, in effect as of January 3, 1989.

The management of the Iron Range Resources and Rehabilitation Board 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.

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.

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### Finance-Related Legal Provisions

Another objective of this audit was to verify that financial transactions were made in accordance with significant finance-related laws. The IRRRB is governed generally by Minn. Stat. Section 298.22. This section creates the Board and establishes the general purpose for its financial transactions. More specifically, Minn. Stat. Sections 298.2211-.226 and 298.291-.298 create particular financial activities and funds which the Board must maintain, including the Northeast Minnesota Economic Development Account, the Taconite Area Environmental Protection Fund, and the Northeast Minnesota Economic Protection Fund.

The Board is subject to various legal provisions which direct its conduct regarding specific financial issues. Minn. Stat. Section 298.224 provides for the investment of funds. Minn. Stat. Sections 298.296-.298 specifies the distribution of mining taxes to the Board. The Department of Revenue determines the amount of the taxes paid the Board.

Finally, the Board is subject to certain general legal provisions which affect the financial management of most state agencies. Minn. Stat. Section 15.191 limits the use of imprest cash accounts to those authorized by the Department of Finance. Minn. Stat. Section 16A.15 requires that funds be encumbered before an obligation is incurred. Minn. Stat. Sections 16B.07-.08 require that competitive bids be let for all public contracts over \$15,000. Minn. Stat. Sections 43A.07-.08 provide the authority for classification of employees and salary changes as negotiated with the various bargaining units. Bargaining unit contracts and plans applicable to the IRRRB include AFSCME, MAPE, the Managerial Plan, and the Commissioner's Plan.

The management of the Iron Range Resources and Rehabilitation Board 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 Iron Range Resources and Rehabilitation Board. The purpose of our testing of transactions was to obtain reasonable assurance that the Iron Range Resources and Rehabilitation Board had, in all material respects, administered its programs in compliance with the aforementioned laws and regulations.

### Status of Prior Audit Findings

We have reviewed the status of audit findings included in the 1987 Management Letter we issued on December 18, 1987 and the 1986 Management Letter issued on November 4, 1986. The findings have all been resolved. However, we cited two issues of noncompliance with finance-related legal provisions which occurred during our three year audit period.

The 1986 Management Letter indicated that contracts were being awarded without the proper solicitation of bids, and that obligations were incurred without a prior encumbrance as required by Minn. Stat. Sections 16A.15 and 16B.07-.08. The 1987 Management Letter concerned transfer of

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monies in the Common Bond Fund, secondary reserve account, to the State Board of Investment. The monies were invested by a trustee rather than the State Board of Investment as required by Minn. Stat. Section 298.2212. The transfer was made in early 1988.

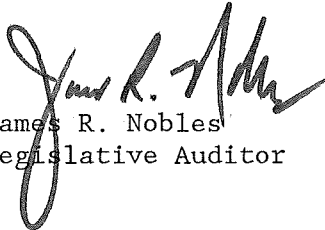
### Conclusions

In our opinion, the Iron Range Resources and Rehabilitation Board's system of internal accounting control in effect on January 3, 1989, 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 and recorded properly.

Section II, finding 1, represents several weaknesses in the Iron Range Resources and Rehabilitation Board receipt controls. We believe the weaknesses subject certain IRRRB receipts at Giant's Ridge to an unnecessary financial risk and should be corrected. Progress on resolving this finding will be reviewed during our next audit.

The results of our testing of transactions and records indicate that the Iron Range Resources and Rehabilitation Board complied with the aforementioned finance-related legal provisions, except for the two instances cited in our 1986 and 1987 Management Letters. Nothing came to our attention in connection with our audit that caused us to believe that the Iron Range Resources and Rehabilitation Board was not in compliance with other applicable legal requirements.

We would like to thank the Iron Range Resources and Rehabilitation Board staff for their cooperation during this audit.

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

January 27, 1989



# IRON RANGE RESOURCES AND REHABILITATION BOARD

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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
Sandra Linn	Auditor-In-Charge
Chris Buse, CPA	Staff Auditor
Ron Mavetz	Staff Auditor

## EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Iron Range Resources and Rehabilitation Board on January 27, 1989:

Jack DeLuca	Commissioner
Phil Landborg	Deputy Commissioner
Brian Hiti	Senior Planner
Bonnie Maxwell	Accounting Supervisor





# IRON RANGE RESOURCES AND REHABILITATION BOARD

## I. INTRODUCTION

The Iron Range Resources and Rehabilitation Board (IRRRB) was established in 1941 to encourage the development of the natural resources of the Iron Range, to reclaim minelands, and to provide vocational training for residents of counties where resources have been depleted. Its focus includes the development of mineral research, agriculture, forestry, mining, and tourism.

The IRRRB administers grants and loans from the Taconite Area Environmental Protection Fund and the Northeast Minnesota Economic Protection Trust Fund. In fiscal year 1988, these grants and loans totalled over \$4.5 million. Related to the economic development of Northeastern Minnesota, the IRRRB also operates Ironworld USA, the Iron Range Research Center, and the Giant's Ridge Recreational Facility. The Hill Annex Mine Tours Section, formerly operated by IRRRB, was transferred to the Department of Natural Resources in July 1988.

The IRRRB consists of 11 members, including five state senators and five representatives plus the Commissioner of the Department of Natural Resources. At least the majority of legislative members on the IRRRB must be elected from districts in which over 50 percent of the residents reside within a tax relief area as defined in Minn. Stat. Section 273.134. The present Commissioner of the Iron Range Resources and Rehabilitation Board is Jack DeLuca.

## IRON RANGE RESOURCES AND REHABILITATION BOARD

### II. CURRENT FINDINGS AND RECOMMENDATIONS

#### 1. Receipt controls in certain areas at Giant's Ridge need improvement.

The Giant's Ridge Recreational Facility is owned and operated by the IRRRB. It had receipts of approximately \$624,000 in fiscal year 1988. The sale of tickets for the use of the Alpine and Nordic ski runs account for more than 75 percent of the receipts. Other revenues include various entry fees, lodging, and the sale of advertising space.

We identified three receipt areas needing improvement in controls: (1) ski ticket inventories, (2) entry fee and lodging receipts, and (3) the sale of advertising space.

The cashiers sell tickets for the use of the Alpine and Nordic ski hills. The tickets for a given day may be one of six colors. A new color is randomly chosen for each day to prevent reuse of the tickets. The tickets are prenumbered and the cashiers reconcile beginning and ending ticket numbers with daily receipts. However, when a ticket color is selected again, the beginning number is not checked against the ending number from the last time it was used. This failure to account for all ticket numbers presents an opportunity for theft. To reduce the risk, the management staff at Giant's Ridge should develop a ticket inventory log for each color, recording the date and the beginning and ending ticket numbers. Any gap in sequence could then be noted and investigated.

The Training Center at Giant's Ridge provides lodging and headquarters for skiers participating in various racing and training events. Fees are charged for lodging and registration. One employee located at the center collects all receipts, makes the lodging accommodations, and does all the recordkeeping for the center.

Good internal control requires the separation of recordkeeping and receipt functions. The risk of undetected errors and irregularities is increased when such a separation does not exist. Although the receipts do not justify the addition of another staff person to separate the duties, the controls could be improved by a change in the way mail receipts are processed. Since one-half the lodging receipts and almost 90 percent of the entry fees are mailed in, the mail clerk could restrictively endorse the checks and forward them directly to the cashier rather than to the center. The mail clerk could send only the registration information with the notation of the amount paid to the center employee.

The IRRRB deposited over \$37,000 in advertising receipts during fiscal year 1988. The sale of advertising space in the "Giant's Ridge News," ski hill pylons, banners, chairlifts, and Ironworld trolley cars made up these receipts. In addition, advertising space was exchanged for merchandise and trips used as prizes in the various skiing events. Staff at Giant's Ridge estimate the value for these prizes at approximately \$14,000.

## IRON RANGE RESOURCES AND REHABILITATION BOARD

One employee at IRRRB sells the advertising space and sends the money to the Board office for deposit. The same employee also makes the arrangements for the exchange of space for prizes. Advertisers who have purchased space have the option of paying immediately or being invoiced at a later date. Currently, the IRRRB office does not verify that all receipts are forwarded for deposit or that all merchandise is received.

Internal controls are weakened whenever one person is responsible for both selling goods and collecting receipts. The IRRRB has no assurance that adequate consideration has been received for all advertising space. To reduce the risk, a simple sales agreement could be drawn up, signed by the IRRRB employee and the advertiser, specifying the amount and type of consideration. Copies of the agreement could be sent to the accounting department for billing or to a Giant's Ridge employee for verification of the merchandise received.

### RECOMMENDATIONS

- An inventory log should be kept to account for Alpine and Nordic tickets at Giant's Ridge.
- A person independent of the recordkeeping function should be collecting the receipts at the Training Center.
- A sales agreement should be used and a person independent of sales should verify that the correct amount of money or merchandise was received for the advertisements printed.



# iron range resources and rehabilitation board

April 5, 1989

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

Dear Mr. Nobles:

I have reviewed your draft management letter of January 27, 1989 and respond as follows:

Your letter identifies three areas in which receipt controls at Giants Ridge should be improved. We have either implemented the recommended changes or are now in the process of implementing same. However, I also want to note that the areas cited represent a very small percentage of our agency's total receipts, and that your audit finds the IRRRB's overall compliance with state statutes and procedures good and our general accounting controls adequate.

In direct response to your current findings and recommendations:

**1. An inventory log should be kept to account for alpine and nordic tickets at Giants Ridge.**

Security of admission tickets to Giants Ridge has always received high priority, and controls to assure continued security have been in place since we opened Giants Ridge in 1984. All lift and trail tickets are secured in locked cabinets with access limited to three members of Giants Ridge management. The cashiers do not have direct access to the tickets, except by checkout of tickets from the manager on duty. Daily cashier work sheets include the beginning and ending numbers of tickets sold, as well as the color code for tickets used each day.

Your recommendation to maintain an additional inventory log has been implemented. A log is now maintained by the manager on duty which notes the color, beginning and ending numbers of the tickets used or returned that day.



**2. A person independent of the recordkeeping function should be collecting the receipts at the Training Center.**

Approximately 90% of the Training Center receipts are personal checks made payable to the State of Minnesota or Giants Ridge. Because of this fact, it would be relatively difficult for anyone to attempt cashing rather than depositing these payments. This is a major reason while we were comfortable with existing controls in this area prior to your audit. Also, the current ski season is the first year in which the general public has been able to rent lodging at the Training Center, and staffing of the facility has been minimal. Hence, the relatively small amount of activity in this area is another reason we were not naturally drawn to question controls earlier. The Training Center's natural tie to special events is a third reason we felt comfortable with prior controls. Registration for special events has been processed through the employee assigned to the Training Center. The process of registration for special events has also included a number of other staff members and volunteers who record each entry, assign race numbers and tabulate race results. Since the collection of entry fees, the issuance of race numbers and the tabulation of race results are performed by different individuals, the process has some inherent checks and balances related to receipts. Thus, we felt and still feel that the risk of theft of lodging or race receipts is not significant.

Your recommendation to segregate the duties of collecting checks and recording entry or lodging receipts has been implemented. The checks for these activities are now logged and restrictively endorsed by the Giants Ridge mail clerk. These checks are then forwarded directly to the Giants Ridge admissions office for deposit. Reconciliation of Training Center lodging receipts to Training Center lodging records is now done by the Giants Ridge admissions office.

**3. A sales agreement should be used and a person independent of sales should verify that the correct amount of money or merchandise was received for the advertisements printed.**

The staff of the agency's Eveleth accounting office record advertising sales, prepare invoices and collect advertising sales revenues according to sales receipts issued by the advertising sales employee. The sales receipts are numbered and issued consecutively, with one copy given to the advertiser, one copy retained by the advertising sales employee, and one copy retained by the Eveleth accounting office. An accounts receivable ledger is maintained in the Eveleth accounting office, and the invoicing and collection of receipts includes verification that sales revenue is actually collected.

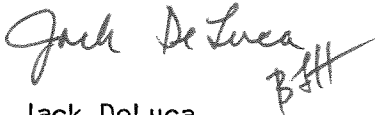
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Your recommendation to develop a more comprehensive sales agreement will be implemented for future advertising sales. This advertising agreement will detail the size and location of the ad. In addition, advertising space (newspapers, signs and billboards) will periodically be reviewed by a member of the Eveleth accounting staff to ensure that all advertising sales or trade-offs for prizes have been reported to accounting.

In closing, we'd like to re-emphasize that the areas in which you recommend improvements represent a small percentage of total Giants Ridge receipts; an even smaller percentage of total agency receipts. We'd also like to note that you seemed generally satisfied that receipt controls at Giants Ridge, with the exceptions you cited, appeared reasonable and adequate. However, we also understand that the improvements you recommend, however minor, are important and demand our immediate attention. We appreciate that your staff has given us the benefit of their professional expertise, and you can rest assured that we have already implemented or will implement your recommendations as soon as possible.

You complemented the IRRRB staff for their cooperation during your audit; I'd like to return the compliment. Your Legislative Auditors were friendly, courteous and helpful. While working at IRRRB, they conducted themselves with the highest degree of professionalism, and while their review was very thorough, they always seemed to try to accomplish their tasks in the least obtrusive manner possible. Thank you, and please extend our appreciation to your staff.

Sincerely,

A handwritten signature in cursive script that reads "Jack DeLuca". Below the signature, there are some initials that appear to be "BHH".

Jack DeLuca  
Commissioner