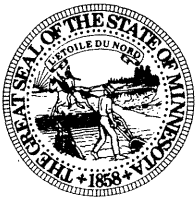


**DEPARTMENT OF NATURAL RESOURCES
METRO REGION
FINANCIAL AND COMPLIANCE AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1988**

MAY 1989



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator John E. Brandl, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

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

Ms. Kathleen Wallace, Regional Administrator
Natural Resources Metro Region

Audit Scope

We have completed a financial and compliance audit of the Department of Natural Resources Metro Region for the three years ended June 30, 1988. 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 Government Auditing Standards, and accordingly, included such audit procedures as we considered necessary in the circumstances.

Internal Accounting Control Systems

One objective of this audit was to study and evaluate major internal accounting control systems; payroll, administrative disbursements, and receipts, at the region, in effect as of February 1, 1989.

The management of the Department of Natural Resources Metro Region 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 Department of Natural Resources is governed generally by Minn. Stat. Section 84.027. This section establishes the general purposes for the department's operations and financial transactions. Minn. Stat. Section 84.081 establishes the various divisions within the department. The regions' disciplines receive their directions from the central office divisions.

Minn. Stat. Section 85.012 establishes the state parks. Minn. Stat. Sections 85.052-85.055 create state park fees and authorize the deposit of fees to specific accounts. Minn. Stat. Section 85.22 creates the state parks Working Capital Fund which is to be used to maintain and operate the revenue producing facilities in the state parks.

The region 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. Section 16A.17 provides the authority to create policies and procedures to process the state payroll. 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 region include AFSCME, MAPE, MMA, the Managerial Plan, the Commissioner's Plan, and the Bureau of Criminal Apprehension Agents Association.

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

Conclusions


In our opinion, the Department of Natural Resources Metro Region's system of internal accounting control in effect on February 1, 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.

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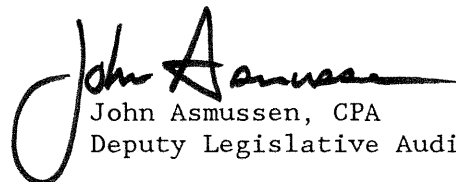
Section II, finding 1, represents weaknesses in the metro region's disbursement controls. We believe the weaknesses subject the region to an unnecessary financial risk and should be corrected. Progress on resolving this finding will be reviewed during our next audit.

The results of our testing of transactions and records indicate that the metro region complied with the aforementioned finance-related legal provisions. Nothing came to our attention in connection with our audit that caused us to believe that the metro region was not in compliance with other applicable legal requirements.

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



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: March 17, 1989

REPORT SIGNED ON: May 24, 1989

DEPARTMENT OF NATURAL RESOURCES

METRO 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
Mary G. Lentsch	Auditor-In-Charge

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Department of Natural Resources Region 6 office on April 24, 1989:

Kathleen Wallace	Regional Administrator
Larry Schmitz	Business Manager

DEPARTMENT OF NATURAL RESOURCES

METRO REGION

I. INTRODUCTION

The Department of Natural Resources (DNR) has six regional offices throughout Minnesota. The Region 6 office of the DNR is located in St. Paul. Currently, there are six DNR divisions (Forestry, Wildlife, Fisheries, Parks, Enforcement, and Waters) and one special unit (Trails and Waterways) that are administered through the metro region office. Within the seven county metropolitan area of Minnesota, there are offices and personnel to administer the various division programs. The division office supervisors report to the regional division directors at the metro region office. The regional division directors report to the central office in St. Paul for program matters. There is also a regional administrator at the metro region who oversees the general administrative matters for the various divisions and the business office.

The metro region cash basis expenditures for fiscal year 1988 were \$5.1 million. Personal services comprised 75 percent of the total expenditures; expense and contractual services accounted for 11 percent; supplies and materials 6.5 percent; and miscellaneous expenditures 7.5 percent.

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II. CURRENT FINDING AND RECOMMENDATION

1. Internal controls over the imprest cash account need improvement.

The DNR Metro Region maintains an imprest cash account of \$5,000. Minn. Stat. Section 15.191 authorizes imprest cash funds "for the purpose of making minor disbursements, providing for change, and providing employees with a portion or all of their payroll warrant where the warrant has not been received through the payroll system." The department also pays emergency fire fighters using the imprest cash account. The handling of imprest cash could be improved in the following areas.

The region has paid certain expenses improperly from the imprest cash account. The region routinely pays subscription, registration, and conference fees out of the imprest cash account. These expenses should have been paid through the statewide accounting (SWA) system. The SWA system offers the flexibility necessary to accommodate these routine expenses. For example, an employee could request an advance or request reimbursement using the employee expense report for some of these expenses. Another method available is the warrant special handling request. State warrants may be pulled, so the payment may accompany the invoice.

Use of the imprest cash account circumvents prescribed state fiscal controls. Some expenses paid out of the imprest cash fund should have been supported by a special expense request or a department purchase order. Examples of the improper payments are meals for \$42, window blinds for \$80, solar panels for \$173, and wooden posts for \$1,040.

Some imprest cash payments were not documented very well. DNR personnel could not always explain the reason for certain expenditures. The only documentation available was the carbon copy of the supporting imprest cash check.

Finally, the reimbursement checks received from the state treasurer and state employees must be deposited promptly. The region had nearly \$2,000 in checks on hand on both February 15, 1989 and March 14, 1989. None of the checks were restrictively endorsed. The region deposits the checks whenever there is time and does not endorse the checks until the time of deposit.

RECOMMENDATION

- The region should strengthen controls over the imprest cash account by:
 - only using the imprest cash account for the intended purposes as established by Minn. Stat. Section 15.191;

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- requiring proper supporting documentation for all imprest cash account activity;
- restrictively endorsing checks immediately upon receipt; and
- depositing reimbursement checks promptly.



STATE OF
MINNESOTA
DEPARTMENT OF NATURAL RESOURCES

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



OFFICE OF THE
COMMISSIONER

May 18, 1989

DNR INFORMATION
(612) 296-6157

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 the Department of Natural Resources, Metro Region 6, for the period ended June 30, 1988.

The one recommendation stated that Region 6 should strengthen controls over imprest cash accounts and listed several specific items of control. All items have been implemented effective immediately:

- The Regional Business Manager will monitor all expenditures to ensure they are a proper use of imprest cash.
- The Regional Business Manager will monitor all imprest cash payments to ensure they are supported by proper documentation.
- The Regional Business Office will restrictively endorse all imprest cash reimbursements and deposit them in a timely manner.

DNR is now in the process of finalizing a policy/procedure to govern use of all imprest cash funds in the Department. This policy/procedure, developed in cooperation with the Department of Finance, will cover the proper use and documentation of imprest cash funds, as well as processing of reimbursements. When the procedure is finalized, it will be thoroughly discussed with our business managers. We will provide you with a copy of the procedure, which will be completed by June 30, 1989.

Yours truly,

Joseph N. Alexander
Commissioner

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