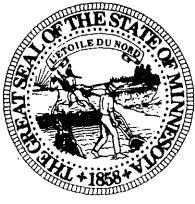


**DEPARTMENT OF NATURAL RESOURCES
BRainerd REGION
FINANCIAL AND COMPLIANCE AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1988**

NOVEMBER 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

Mr. Robert Hance, Regional Administrator
Department of Natural Resources, Brainerd Region

Audit Scope

We have completed a financial and compliance audit of the Department of Natural Resources, Brainerd 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 and administrative disbursements at the region, in effect as of June 1, 1989.

The management of the Department of Natural Resources, Brainerd 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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Department of Natural Resources, Brainerd Region
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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 89.04 establishes the Forest Management Fund, which in part contains the nursery operations accounts. The nursery operations, which are administered in the Brainerd region, are authorized by Minn. Stat. Sections 89.35-89.43.

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.

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, Brainerd Region had, in all material respects, administered its programs in compliance with the aforementioned laws and regulations.

Conclusions

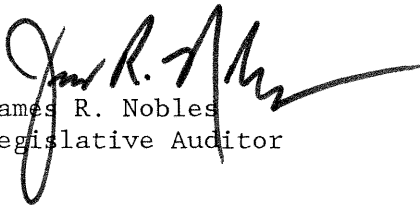
In our opinion, the Department of Natural Resources, Brainerd Region's system of internal accounting control in effect on June 1, 1989, taken as a whole, was sufficient to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

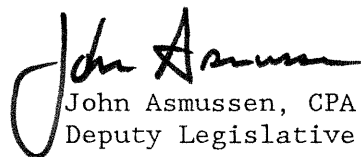
Section II, findings 1-3, represent weaknesses in the Brainerd region's controls of the nursery operations and the imprest cash account. We believe the weaknesses subject the region to an unnecessary financial risk and should be corrected. Progress on resolving these findings will be reviewed during our next audit.

Senator John E. Brandl, Chairman
Members of the Legislative Audit Commission
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Department of Natural Resources, Brainerd Region
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The results of our testing of transactions and records indicate that, the Brainerd 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 Brainerd region was not in compliance with other applicable legal requirements.

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


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: June 30, 1989

REPORT SIGNED ON: November 1, 1989

DEPARTMENT OF NATURAL RESOURCES

BRAINERD 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
Steve Pyan, CPA	Auditor-in-Charge
Ron Mavetz	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Department of Natural Resources Region III office on July 27, 1989:

Robert Hance	Regional Administrator
Jim Rausch	Business Manager
John Bouthilet	Department of Natural Resources, Financial Management Bureau

DEPARTMENT OF NATURAL RESOURCES

BRAINERD REGION

I. INTRODUCTION

The Department of Natural Resources (DNR) exists to perpetuate and enhance Minnesota's lands, waters, timber, minerals, fish, wildlife, and other natural resources for the benefit and enjoyment of the public. In order to accomplish these objectives, the DNR has established headquarters in six regional offices throughout Minnesota.

The Region III office of the DNR is located in Brainerd. The regional office is comprised of a regional administrator and regional supervisors for each of the following areas: enforcement, fisheries, forestry, parks, and wildlife. Other staff represented at the regional level include, among others, waters and trail and waterway specialists. Regional supervisors report directly to their division directors at the central office in St. Paul concerning program matters. The department's nursery operations are under the general direction of the Region III forestry supervisor. The nursery section operates from two locations, one of which is located within the region. The activities of the two locations constitute a statewide operation. The regional administrator is responsible for coordinating and monitoring the field activities of these disciplines and supervising the administrative matters of the region. The Brainerd region also has area district offices located throughout central Minnesota to assist in conducting the programs and activities of the various disciplines.

The Brainerd region incurred expenditures of approximately \$13.7 million in fiscal year 1988. Personnel services comprised 75 percent of the total expenditures; expense and contractual services accounted for 13 percent; supplies and materials 10 percent; and miscellaneous expenditures 2 percent.

DEPARTMENT OF NATURAL RESOURCES

BRAINERD REGION

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. The nursery account balance is decreasing.

The nursery's available operating cash balance is decreasing. The 1982 Legislature directed the department to develop a plan on the benefits and costs of making the nursery and tree improvement program self-supporting. The plan was completed and the overall conclusion was that it would be possible to operate the nursery on a self-sufficient basis.

Currently, nursery staff maintain a detailed cost analysis system which summarizes all operating costs. The cost of each type of tree grown for resale is calculated taking into account production costs. Included in production costs are labor, operating costs, and shipping charges, as well as general overhead and depreciation costs. The annual cost summary is used by the DNR Forestry Division to set a pricing structure. Annual financial statements summarizing the operations are prepared by the DNR financial management bureau. These statements are on a cash basis from information on the statewide accounting system.

The operations account was appropriated funds during fiscal years 1984, 1985, and 1986 to help establish a working capital base. However, this working capital has been allowed to diminish. The table below summarizes the nursery activity for fiscal years 1986 through 1988. The available operating cash balance has declined a total of \$267,713 during those years.

Nursery Account Activity
Fiscal Years 1986 through 1988

	<u>1986</u>	<u>1987</u>	<u>1988</u>
Beginning Cash Balance	\$ 729,873	\$ 618,402	\$ 564,818
Appropriations	52,345	45,714	-0-
Receipts	1,601,965	1,716,900	1,861,359
Disbursements	<u>(1,765,781)</u>	<u>(1,816,198)</u>	<u>(1,964,017)</u>
Ending Cash Balance	<u>\$ 618,402</u>	<u>\$ 564,818</u>	<u>\$ 462,160</u>

Source: Department of Finance Appropriation Balance Within Fund
Report as of September 3, 1988.

We believe a more comprehensive financial management system regarding the nursery should be maintained. The pricing structure should include the costs associated with operating the nurseries and any reserves for future capital expenditures. Also, the number of trees which can reasonably be expected to be sold should be considered.

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BRAINERD REGION

RECOMMENDATION

- The department should develop a pricing structure sufficient to recover all current expenses and future capital outlays.

2. The seed cone checking account has not been properly approved or controlled.

The nursery section has a checking account that has not been properly approved by the Department of Finance. Also, the account is not adequately monitored and the balance maintained in the account is unnecessarily large.

The checking account is used to purchase seed cones from private parties for use in the tree stock program. The nursery staff at Willow River maintain a master checking account with a local bank. An annual deposit is made into the account from nursery funds set aside for this purpose. The funds are distributed to forestry stations throughout the state. Seventeen stations received a portion of the \$40,000 in fiscal year 1989. The forest station supervisors each have a checking account from which they make payments to individuals who turn in collected seed cones. At the end of the seed cone season, each station supervisor reports his purchases and returns unused funds to the Willow River nursery office. These returned funds are then deposited into the master checking account. Historically, the funds have not been refunded to the nursery account in the statewide accounting system.

We have several concerns with the current seed cone purchasing procedures. First, the Department of Finance has not approved the account. Generally, checking accounts operating outside the statewide accounting system are considered imprest cash accounts. Imprest cash accounts are governed in part by Minn. Stat. Section 15.191, which requires that the Department of Finance approve the operations and amounts of such accounts.

Second, control over the funds is weak. The staff person who controls the master account does not reconcile all funds distributed and returned. He does maintain a spreadsheet where he attempts to determine the funds each station has spent, returned, and should have on hand. However, a complete reconciliation of each station including verification of funds kept in their local checking accounts has not been done. Also, funds have accumulated in the master checking account. Through a combination of redepositing unused funds and interest earned, substantial balances are often present in the account. For instance, as of June 30, 1989, there was about \$14,000 in the account.

The department should submit a request to the Department of Finance for account authorization. The department should also establish a monitoring system and annually reconcile the funds issued, expended, and remaining.

DEPARTMENT OF NATURAL RESOURCES

BRAINERD REGION

This procedure may involve coordination between the forestry division central office and regional office staff. Furthermore, the balance of funds held in the master checking account should be reduced and the interest properly recorded.

RECOMMENDATIONS

- The department should obtain approval from the Department of Finance to operate the seed cone checking account.
- Idle funds should be returned to the appropriate statewide accounting system account.

3. Imprest cash account travel advance controls need improvement.

Several travel advances made from the imprest cash account were not repaid timely. Also, requests on file with the imprest cash clerk did not always contain a supervisor's authorizing signature.

The region's imprest cash account is used to provide travel advances to staff scheduled to be in travel status. Department of Finance operating policy and procedure 06:05:14 requires travel advances to be settled through the statewide accounting (SWA) system within five days after travel is completed. The imprest cash account should be reimbursed as soon as the SWA settlement is received. Two employees did not make timely travel advance settlements. One settlement was made four months after the travel was completed. Both employees had travel advances outstanding for two separate trips. A travel advance should not be granted for a trip until any previous advance has been settled.

A supervisor's signature is required on all travel advance requests. However, three advance request reviewed did not contain the required signature. Although the subsequent claim for reimbursement was authorized, the original request for advance funds should also be approved. The imprest cash clerk should not process claims without proper authorization.

RECOMMENDATIONS

- Travel advances should be repaid the imprest cash fund in a timely manner.
- All travel advance requests should be approved by the supervisor.



STATE OF
MINNESOTA

DEPARTMENT OF NATURAL RESOURCES

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



OFFICE OF THE
COMMISSIONER

October 19, 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 taken to resolve the recommendations in the recently concluded audit of the Department of Natural Resources Brainerd Region III for the three years ended June 30, 1988.

RECOMMENDATION #1: The Division of Forestry will develop formalized procedures to ensure that the nursery operations are self-supporting. The process will include financial statements for both the year ended and for the year to come, including an analysis of the pricing structure. These statements will be submitted to the Financial Management Bureau for review.

Persons Responsible: James Brooks, Joyce Nyhus, Darwin Anderson, John Bouthilet

Implementation Date: January 15, 1990

RECOMMENDATION #2: The Division of Forestry will develop written procedures to monitor and reconcile the seed cone accounts and return unneeded balances. In addition, authorization will be requested for the account.

Persons Responsible: Joyce Nyhus, James Brooks, John Bouthilet

Implementation Date: January 15, 1990

RECOMMENDATION #3: The Region III Business Manager will comply with the provisions of the Department of Finance and DNR procedures governing short-term travel advances (06:05:14). Effective immediately, he will require (1) the supervisor's signature on all travel advances and (2) timely repayment of travel advances.

Persons Responsible: James Rausch, Robert Hance

Implementation Date: IMPLEMENTED (October 12, 1989)

Yours truly,

Joseph N. Alexander
Commissioner

AN EQUAL OPPORTUNITY EMPLOYER