

**DEPARTMENT OF NATURAL RESOURCES  
FINANCIAL AUDIT  
FOR THE THREE YEARS ENDED JUNE 30, 1989**

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**MARCH 1990**

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**Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota**

**90-16**



# SUMMARY

State of Minnesota  
Office of the Legislative Auditor  
Veterans Service Building • St. Paul, MN 55155  
612/296-4708

## DEPARTMENT OF NATURAL RESOURCES

### FINANCIAL AUDIT JULY 1, 1986 - JUNE 30, 1989

Public Release Date: March 28, 1990

No. 90-16

#### OBJECTIVES:

Our audit scope included three of the eleven central office programs: Field Operations, Trails and Waterways, and Administration. We had the following objectives when examining the programs:

- **EVALUATE INTERNAL CONTROL STRUCTURE:** License bureau receipts and refunds; fleet usage fee receipts; lease purchase agreements; 1854 Indian treaty grant payments; land purchases; Southern Service Center stock operations; Fish and Wildlife Restoration federal programs; Boundary Waters Canoe Area federal program; and payroll, administrative disbursements and contracts for the Field Operations, Trails and Waterways, and Administration program areas.
- **TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.**

#### CONCLUSIONS:

We found the following areas where the internal control structure needed improvement:

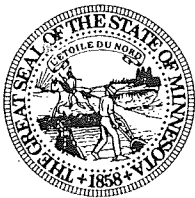
- Financial records for the board, snowmobile, and all terrain vehicles registration receipts were not properly maintained.
- Controls over the license bureau refund system were inadequate.
- Access to the statewide accounting and payroll personnel systems was not controlled sufficiently.
- The Southern Service Center had an inadequate separation of duties for the consumable inventory system.

We found two areas where the department had not complied with finance-related legal provisions:

- The department was not monitoring the resolution of subrecipient audit findings as required by the Single Audit Act.
- The department paid property taxes on a parcel of land purchased for a water access. State law prohibits the department from paying property taxes on land purchases.

Contact the Financial Audit Division for additional information.





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 E. Brandl, Chairman  
Legislative Audit Commission

Members of the Legislative Audit Commission

Joseph N. Alexander, Commissioner  
Department of Natural Resources

Audit Scope

We have conducted a financial related audit of three of the eleven central office programs of the Department of Natural Resources as of and for the three years ended June 30, 1989. These programs are Field Operations, Trails and Waterways, and Administration. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the Department of Natural Resources, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of these programs of the Department of Natural Resources in effect at June 30, 1989. In addition, we audited the following programs for the year ended June 30, 1989: 1854 Indian treaty grant and the Fish and Wildlife restoration (federal) and the Boundary Waters Canoe Area (federal).

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transactions of the Department of Natural Resources are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Department of Natural Resources's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of the Department of Natural Resources is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and
- transaction are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

#### Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures, for the central office programs as stated in the scope paragraph, in the following categories:

- License bureau receipts and refunds,
- Fleet usage fee receipts,
- Lease purchase agreements,
- 1854 Indian treaty grant payments,
- Payroll,
- Payroll expense transfers,
- Contracts,
- Unemployment and workers compensation benefit payments,
- Land and related payments,
- Other administrative disbursements (including supplies and capital equipment),
- Southern Service Center stock operations,
- Fish and Wildlife Restoration federal program, and
- Boundary Waters Canoe Area federal program.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

#### Conclusions

Our study and evaluation disclosed the conditions discussed in Section II, findings 1 to 4 involving the internal control structure of the Department of Natural Resources programs as stated in the scope paragraph. We consider these conditions to be reportable conditions under standards established by the American Institute of Certified Public Accountants.

Senator John E. Brandl, Chairman  
Members of the Legislative Audit Commission  
Joseph N. Alexander, Commissioner  
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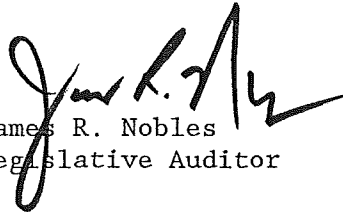
Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe none of the reportable conditions described above is a material weakness.

However, we noted other matters involving the internal control structure and its operation that we reported to the management of Department of Natural Resources in a meeting held on March 1, 1990.

The results of our tests indicated that, except for findings 5 and 6, the Department of Natural Resources complied in all material respects with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Department of Natural Resources had not complied, in all material respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and management of the Department of Natural Resources. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 28, 1990.

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

END OF FIELDWORK: January 16, 1990

REPORT SIGNED ON: March 23, 1990





DEPARTMENT OF NATURAL RESOURCES

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AUDIT PARTICIPATION

The following staff from the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Margaret Jenniges, CPA	Audit Manager
Judy Cammack, CPA	Auditor-in-Charge
Daniel Quandt	Staff Auditor
Susan Rumpca	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff on March 1, 1990:

Gene Gere	Assistant Commissioner
Al Yozamp	Financial Management Bureau Administrator
John Bouthilet	Revenue Accounting Supervisor
Wilma Mackenzie	Fish and Wildlife Business Manager
Norm Kordell	Field Services Administrator
Joyce Nyhus	Forestry Business Manager
Maggie Winkel	License Bureau Administrator



## DEPARTMENT OF NATURAL RESOURCES

### INTRODUCTION

The Department of Natural Resources (DNR), which is headed by the commissioner, Joseph N. Alexander, consists of the central office and six regional offices. Each of the regional offices has their own business manager and is audited as a separate entity. There are 11 programs within the central office which are established to achieve the department goals. These include: mineral resources, water resources, forest management, parks and recreation, trails and waterways management, fish and wildlife management, enforcement, field operations support, regional operations support, special services and programs, and administrative management services.

The programs audited were trails and waterways, field operations support, and administrative management. The 1854 Indian treaty grant program was audited as part of the statewide audit. We also audited the Fish and Wildlife Restoration (material) and Boundary Waters Canoe Area (immaterial) federal programs in accordance with the Single Audit Act.

The trails and waterways program consists of the following activities: trails and waterways management, water access and recreation, and trails recreation. One of the main objectives of this program is to maximize tourism in the state. Total program expenditures for fiscal year 1989 were approximately \$5,100,000. This program is mainly funded by the Water Recreation and Special Revenue Funds. Some of the receipts into these funds include the watercraft and snowmobile registration fees, which totaled approximately \$2,900,000 and \$1,400,000 for fiscal year 1989.

The field operations program consists of field services, department equipment, engineering, and land administration. The primary objective of this program is to provide professional and technical service support to the department. The majority of the field services is located at the central office, however, there are also two service centers. Our review of this program included the Southern Service Center located in St. Paul. We did not review the Northern Service Center. Total program expenditures for fiscal year 1989 were approximately \$11,100,000. This program is mainly funded by the General and Game and Fish Funds.

The administrative management program consists of financial and administrative management, licensing, and information and data systems. The purpose of this program is to provide overall management of the department. Total program expenditures for fiscal year 1989 were approximately \$2,400,000. This program is also primarily funded by the General and Game and Fish Funds.

## DEPARTMENT OF NATURAL RESOURCES

### II. CURRENT FINDINGS AND RECOMMENDATIONS

1. Financial records for the boat, snowmobile, and all terrain vehicle registration receipts are not properly maintained.

The batch detail reports for the boat, snowmobile, and all terrain vehicle registrations were not available for the entire audit period. License bureau staff keep the reports for approximately one year and then discard them. These reports, which list the applicants and fees, provide the audit trail from the applications to the actual deposit. Without the reports, we were unable to determine that all boat, snowmobile and all terrain vehicle registration receipts were deposited for the entire audit period. The reports were unavailable for fiscal year 1987 and the first three quarters of fiscal year 1988. Our testing of fiscal year 1989 documents indicated that DNR has adequate controls to ensure accurate depositing of receipts.

The license bureau records retention schedule does not include the batch detail reports. According to Minn. Stat. Section 15.17, all financial records need to be controlled by a retention schedule. The Department of Finance's general retention schedules require financial records to be retained for three complete fiscal years after the current processing year.

#### RECOMMENDATION

- The license bureau should ensure that all supporting documentation, including batch detail reports, are included on the records retention schedule and maintained according to the schedule.

2. The controls over the license bureau refund system are inadequate.

The department does not have sufficient control over license bureau refunds. Refunds from the Game and Fish Fund totalled approximately \$187,000 in fiscal year 1989. The majority of the refunds are for senior citizen fishing licenses. Minn Stat Section 97A.485 subd. 5 (f) requires DNR to refund the four dollar senior citizen fishing license fee if a request is made. Approximately 5,000 of these refunds are processed during each of the busier months.

The senior citizen requests a refund by submitting the second copy of their license to the license center. Generally, two game and fish employees enter the information, including amount, from the license copy onto the DNR refund system. However, employees from other sections help out during the periods with more activity. Approximately once each month, the license bureau sends a computer tape of these refunds to the Department of Finance where the checks are generated and mailed. All refunds

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should be supported by the second copy of the license. However, the license documents are not filed in any particular order. The system does not have any edits to prevent a licensee from getting more than one refund and the amount of refund entered can be as high as \$999.99. Because of the volume of refunds and the filing system, it would be nearly impossible to trace back to the input documentation to determine if a refund was appropriate. No one reviews the output to ensure that refunds are authorized and reasonable.

All input documents should be properly cancelled and filed so that an employee independent of the input process could reconcile the input documents to the output reports. A system edit could also be established that would limit the amount of a senior citizen refund to four dollars. These procedures would reduce the risk that unauthorized payments would be made and that the incorrect amount would be refunded.

### RECOMMENDATION

- The Department of Natural Resources should strengthen controls over the refund system by properly cancelling and filing all source documentation and having an independent review of system output.
3. The controls over the access to the statewide accounting and payroll personnel systems need to be improved.

The DNR employees responsible for approving access to the statewide accounting and personnel payroll systems are not making sure that Finance has entered the authority accurately. The payroll and accounts payable supervisors are the personnel/payroll and statewide accounting system security contacts for DNR. These security contacts approve the employee system access requests and the Department of Finance enters the authorities requested onto the employee security records.

Five of the twelve DNR employees who have authority to enter payments on the statewide accounting system are not part of the accounts payable section. These employees should not have this type of authority. A report is available from Finance that lists each employee's security record. The security contacts should request and review this report on a periodic basis to ensure that the appropriate employees have the necessary computer access authority.

The department is also responsible for notifying Finance when to change/delete an employee's access authority. However, in one instance the security contact did not request deletion of an employee's security record until one month after the employee retired. Finance receives weekly reports generated from the payroll system which list employees that have transferred to a different department or have left state employment. Finance then deletes the employee's security clearance. However, DNR should not rely on Finance to make these changes. There is a delay

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between the time the employee's status changes and Finance receives the report and enters the transaction. Also, Finance does not know when an employee changes positions/divisions within DNR.

### RECOMMENDATIONS

- The security contacts should make sure that the employee security clearance is entered accurately.
- The security contacts should periodically review the employee access authority reports to determine if employees' access needs have changed.
- The employee supervisors and security contacts should submit security change/delete requests in a timely manner.

4. The Southern Service Center has an inadequate separation of duties for the consumable inventory system.

The Southern Service Center warehouses and supplies consumable stock items such as hardware items, safety and protective commodities, uniforms, and automotive supplies. The lead stores clerk's duties are incompatible because the employee is in a position to conceal unintentional or intentional errors. The lead stores clerk is responsible for entering the purchases and sales on the inventory system. He is also responsible for both purchasing and receiving goods, and filling orders. This represents a lack of adequate separation of duties.

Someone independent of the warehouse should enter the purchases and sales onto the computer system. However, there is another option which would mitigate the lack of control. Inventory addition and sales reports are available from the inventory system. An employee independent of the inventory system could reconcile the additions report to the statewide accounting disbursements report. The sales report could be compared to the invoices that support the sales. This person should investigate any discrepancies to provide additional assurance that the inventory was accurately recorded.

The lead stores clerk also summarizes the discrepancies noted in the inventory cycle counts performed by the maintenance employees. After the lead stores clerk prepares a summary for management review, the count sheets are thrown away. Although employees independent of the inventory system perform the count, the lead stores clerk is the only one who reviews the count sheets and reconciles the differences. The persons performing the count or someone else independent of the inventory record keeping function should resolve any discrepancies.

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RECOMMENDATION

- An employee independent of inventories should maintain the perpetual inventory system or there should be an independent check of system input and output.
- The cycle count sheets should be reviewed by someone independent of the inventory recordkeeping functions.

5. PRIOR FINDING NOT RESOLVED. DNR has not fully established a subrecipient audit resolution process.

DNR has not been monitoring the single audit coverage of its subrecipients. DNR provides over \$25,000 in federal assistance to nine counties which are audited each year by the State Auditor. The audit reports for the period ended June 30, 1988 revealed that there were instances of noncompliance with grant requirements for two of the counties. However, DNR did not follow-up on these to ensure that corrective had been taken.

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 regulations with respect to Federal financial assistance provided to the subrecipient by the State or local government;

Finance has issued directives to state agencies concerning their responsibilities in monitoring subrecipients. DNR developed internal procedures in September 1988. However, DNR has not monitored its subrecipients single audit coverage by reviewing individual subrecipients' reports to ensure prompt and corrective action is taken on material findings.

RECOMMENDATION

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

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6. DNR inappropriately paid property taxes on land purchased for a water access site.

DNR paid 1989 property taxes totalling \$1,560 on a parcel of land purchased for a water access site. DNR also reimbursed the landowner \$611 for property taxes for the second half of 1988 on the same parcel.

Minn. Stat. Section 84.0274 (Landowners' Bill of Rights) prohibits DNR from paying taxes when purchasing land. The Fee Option also contains a clause which states that under no circumstances will the current taxes be prorated but shall be paid in full by the seller.

Since DNR was not authorized to make this payment, they should request reimbursement of the 1988 and 1989 property taxes from the seller or seek other remedies.

RECOMMENDATION

- DNR should seek the appropriate remedy for the property taxes that were inappropriately paid.





STATE OF  
MINNESOTA

DEPARTMENT OF NATURAL RESOURCES

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

OFFICE OF THE  
COMMISSIONER



DNR INFORMATION  
(612) 296-6157

March 16, 1990

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 audit findings in the recently concluded audit of the Department of Natural Resources' central office for the three years ended June 30, 1989.

**RECOMMENDATION #1:** The License Bureau Administrator will add the batch detail reports for boat, snowmobile, and all-terrain vehicle registrations to the records retention schedule and will ensure that these documents are retained the required duration.

**Person Responsible:** Margaret Winkel  
**Implementation Date:** April 2, 1990

**RECOMMENDATION #2:** The License Bureau will develop a systematic, auditable filing scheme for the senior citizens' refund applications. It will likely involve a batching of applications by date along with the capability to trace batch detail in the computer system.

**Person Responsible:** Margaret Winkel  
**Implementation Date:** April 16, 1990

**RECOMMENDATION #3:** The security contacts will review the SWA and PPS security detail reports each quarter to ensure that the appropriate clearances are in effect for each employee. Upon transfer or severance, an employee's security clearances will be immediately canceled.

**Persons Responsible:** Jerry Hampel, Pat Burt  
**Implementation Date:** April 2, 1990

**RECOMMENDATION #4:** In order to achieve proper separation of functions, the clerk in the service center office will (1) reconcile the additions to inventory report to the SWA expendi-

Mr. James R. Nobles  
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tures by AID report, and (2) reconcile the sales (of inventory) report to the SWA A68 payments. Any discrepancies will be reported to the inventory supervisor for investigation. The inventory count sheets, as well as the summary of report, will be reviewed by the inventory supervisor who will resolve any discrepancies.

**Person Responsible:** David Kircher  
**Implementation Date:** April 2, 1990

**RECOMMENDATION #5:** This recommendation pertains to the Forestry BWCA grants. This grants program will end in F.Y. 1990. The Forestry Division has requested status reports from the counties in noncompliance status and will continue to monitor progress until the problems are resolved.

**Persons Responsible:** Joyce Nyhus, James Brooks  
**Implementation Date:** June 1, 1990

**RECOMMENDATION #6:** The payment cited related to a complicated and protracted purchase, and it was decided to pay the taxes rather than waste our efforts. The DNR now has authority to pay up to 10% over the appraised value to handle such problems. However, during the period from 1987 through 1989, this authority was temporarily removed, and it was during this period that this acquisition occurred. We will request that the Attorney General's staff review this matter and seek appropriate remedy.

**Person Responsible:** Jeff Hanson  
**Implementation Date:** April 2, 1990

Yours truly,



Joseph N. Alexander  
Commissioner

cc: Margaret Jenniges  
Eugene Gere  
Al Yozamp  
Margaret Winkel  
Norm Kordell  
Dave Kircher  
James Brooks  
Joyce Nyhus  
Jeff Hanson  
Pat Burt  
Jerry Hampel  
John Bouthilet