

**DEPARTMENT OF NATURAL RESOURCES
NORTHERN SERVICE CENTER
FINANCIAL AUDIT
FOR THE FOUR YEARS ENDED JUNE 30, 1989**

AUGUST 1990

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

90-60

DEPARTMENT OF NATURAL RESOURCES NORTHERN SERVICE CENTER

FINANCIAL AUDIT FOR THE FOUR YEARS ENDED JUNE 30, 1989

Public Release Date: August 31, 1990

No. 90-60

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Receipts, materials and supplies disbursements, payroll, and consumable inventory.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

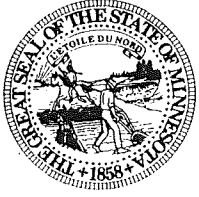
We found one area where the internal control structure needed improvement:

- The Northern Service Center has inadequate inventory controls.

We reported one area where the Northern Service Center has not complied with finance-related legal provisions:

- The Northern Service Center is not paying bills promptly.

Contact the Financial Audit Division for additional information.
(612) 296-1730



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 Alexander, Commissioner
Department of Natural Resources

Mr. Robert Ross, Supervisor
Department of Natural Resources, Northern Service Center

Audit Scope

We have conducted a financial related audit of the Department of Natural Resources, Northern Service Center, as of and for the four years ended June 30, 1989. Our audit was limited to only that portion of the State of Minnesota's financial activities attributable to the transactions of the Department of Natural Resources, Northern Service Center, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Department of Natural Resources, Northern Service Center in effect at April 1990.

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 transaction of the Department of Natural Resources, Northern Service Center 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, Northern Service Center'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, Northern Service Center 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
- transactions 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 in the following categories:

- receipts,
- materials and supplies disbursements,
- payroll, and
- consumable inventory control.

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 finding 1 involving the internal control structure of the Department of Natural Resources, Northern Service Center. We consider this condition to be a reportable condition under standards established by the American Institute of Certified Public Accountants. 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 the reportable condition described in finding 1 is a material weakness.

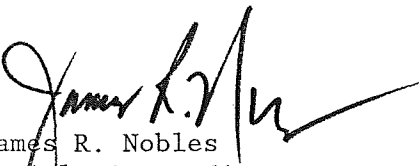
Senator John E. Brandl, Chairman
Members of the Legislative Audit Commission
Mr. Joseph Alexander, Commissioner
Mr. Robert Ross, Supervisor
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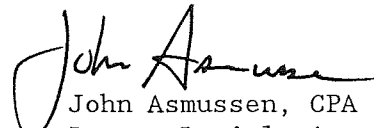
We also noted other matters involving the internal control structure and its operation that we reported to the management of the Department of Natural Resources, Northern Service Center, at the exit conference held on August 7, 1990.

The results of our tests indicate that, except for the issues discussed in finding 2, with respect to the items tested, the Department of Natural Resources, Northern Service Center, 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, Northern Service Center, 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, Northern Service Center. This restriction is not intended to limit the distribution of this report, which was released as a public document on August 31, 1990.

We would like to thank the the Department of Natural Resources, Northern Service Center, staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: May 30, 1990

REPORT SIGNED ON: August 27, 1990

DEPARTMENT OF NATURAL RESOURCES
NORTHERN SERVICE CENTER

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AUDIT PARTICIPATION

The following members of the Office of the Legislative Auditor participated in this audit:

John Asmussen, CPA	Deputy Legislative auditor
Margaret Jenniges, CPA	Audit Manager
Mary G. Lentsch	Auditor-in-Charge
Marla Conroy, CPA	Staff Auditor

EXIT CONFERENCE

The findings and recommendations included in this report were discussed with the following staff of the Department of Natural Resources at the exit conference held on August 7, 1990:

Connie Vincent	Northern Service Center Inventory Control Supervisor
Robert Ross	Northern Service Center Supervisor
Norman Kordell	Field Services Administrator
John Chell	Region Administrator
John Bouthilet	Financial Management Bureau Supervisor
Bill Brinker	Parks Division Business Manager
Al Yozamp	Financial Management Bureau Administrator

DEPARTMENT OF NATURAL RESOURCES
NORTHERN SERVICE CENTER

I. INTRODUCTION

The Department of Natural Resources (DNR) has two supply warehouses, or service centers. The Northern Service Center of DNR is located in Grand Rapids. The service center's function is to provide a quality product, at the lowest possible cost, in a timely manner. The Northern Service Center provides the following services: requisitions equipment and supplies; repairs and fabricates equipment; and disburses equipment and supplies. The supervisor reports to the Bureau of Field Services administrator in St. Paul.

The Northern Service Center had total disbursements of approximately \$1.3 million in fiscal year 1987 and \$1.4 in each of fiscal years 1988 and 1989. Payroll comprised about 50 percent of total disbursements. Materials and supplies accounted for 49 percent of total disbursements in fiscal year 1987 and 48 percent and 45 percent in fiscal years 1988 and 1989, respectively.

Inventory was valued at about \$82,000 at December 31, 1989 and \$52,000 at March 30, 1990.

Financial Information Sources: Statewide Accounting Managers Financial Reports dated September 5, 1987, September 3, 1988, and September 2, 1989. Northern Service Center Agency records.

DEPARTMENT OF NATURAL RESOURCES
NORTHERN SERVICE CENTER

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. The Northern Service Center has inadequate inventory controls.

The Northern Service Center does not have adequate separation of duties over its store operations. The service center has several different operations, with the largest being the store operations. The store operations serves the different parks and field offices in the northern regions of the state. One person is in charge of receiving, filling orders, posting, and reordering supplies. In addition, this same person is responsible for conducting the inventory cycle counts. Without adequate separation of duties the chance that errors or irregularities could occur and go undetected increases.

The service center should not allow the same individual to both post and fill orders. 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. Also, someone not associated with the store operations should assist with the inventory cycle counts.

In addition, the service center is not maintaining inventory records on a timely basis. The service center has a computerized inventory system. At the time of our review, posting had not been performed for nine days. Without timely information on the inventory records, billings may be incorrect. In addition, the system's automatic stock reorder points are not utilized because of the delays in posting transactions. The service center must post inventory transactions timely.

Also, the service center does not follow acceptable receiving procedures. Without following proper receiving procedures, the service center may be paying for items it did not receive. The service center has developed internal procedures for receiving shipments but does not follow them. When shipments come in to the service center, the items are checked off on the purchase order to indicate they had been counted and received. However, some of the documents we reviewed had no indication of receipt. Without evidence of receipt, the input clerk cannot determine whether invoices are for goods actually received. The service center should not pay invoices without first obtaining evidence the goods were received.

RECOMMENDATIONS

- The service center should separate the duties within the store operations section or there should be an independent check of system input and output.

DEPARTMENT OF NATURAL RESOURCES
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RECOMMENDATIONS (Continued)

- The service center should post transactions to the inventory system in a timely manner to ensure the records are accurate.
- The service center should not pay invoices without obtaining evidence goods have been received.

2. The Northern Service Center is not paying bills promptly.

The service center is not in compliance with Minn. Stat. 16A.124 which requires state agencies to pay bills promptly. We found several invoices where early payment discounts were not taken. Payments to three vendors totalling \$41,092.33 for fiscal years 1986 through 1989 involved lost discounts of \$522. We could not determine whether other discounts have also been lost. The statute further requires vendor invoices to be paid within 30 days of receipt. We noted several vendor payments which were not made within this time frame. The service center should make vendor payments in accordance with statutory requirements.

RECOMMENDATION

- The service center should make payments in accordance with Minn. Stat. 16A.124.



STATE OF
MINNESOTA

DEPARTMENT OF NATURAL RESOURCES

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



OFFICE OF THE
COMMISSIONER

DNR INFORMATION
(612) 296-6157

August 20, 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 implement the recommendations in the audit report for the Department of Natural Resources, Northern Service Center, for the four-year period ended June 30, 1989.

RECOMMENDATION #1: The Northern Service Center is now in the process of creating the position of inventory controller. Establishing this position will allow (1) the proper separation of duties and (2) timely posting to the inventory system.

Person Responsible: Robert Ross
Implementation Date: January 31, 1991

RECOMMENDATION #2: The procedure for receiving goods will be reviewed and revised to ensure that only goods that are received are paid for in a timely manner and all applicable discounts taken.

Person Responsible: Robert Ross
Implementation Date: September 1, 1990

Yours truly,

Joseph N. Alexander
Commissioner

cc: Margaret Jenniges
Eugene Gere
John Chell
Robert Ross
Norman Kordell