

**DEPARTMENT OF NATURAL RESOURCES  
GRAND RAPIDS REGION  
FINANCIAL AUDIT  
FOR THE FOUR YEARS ENDED JUNE 30, 1989**

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**AUGUST 1990**

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

**90-61**



# **DEPARTMENT OF NATURAL RESOURCES GRAND RAPIDS REGION**

## **FINANCIAL AUDIT FOR THE FOUR YEARS ENDED JUNE 30, 1989**

Public Release Date: August 31, 1990

No. 90-61

### **OBJECTIVES:**

- **EVALUATE INTERNAL CONTROL STRUCTURE:** Cash receipts at Bearhead Lake, Gooseberry Falls, Soudan Underground Mine, and Splitrock Lighthouse State Parks; timber sales receipts; general expense and contractual services disbursements; and payroll.
- **TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.**

### **CONCLUSIONS:**

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

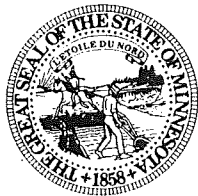
- The region possibly paid one employee unnecessary on-call pay.
- Internal controls over some park receipts are inadequate.

We reported on two areas where the region had not complied with finance-related legal provisions:

- On-call duty is not always authorized in writing.
- Overages and shortages are not being properly handled by Splitrock Lighthouse and Soudan Underground Mine State Parks.

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





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Senator John E. Brandl, Chairman  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Joseph Alexander, Commissioner  
the Department of Natural Resources

and

Mr. John Chell, Regional Administrator  
Department of Natural Resources, Grand Rapids Region

Audit Scope

We have conducted a financial related audit of the Department of Natural Resources, Grand Rapids Region II as of and for the four years ended June 30, 1989. 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, Grand Rapids Region II, as discussed in the Introduction and limited to those receipts discussed in the following paragraph. We have also made a study and evaluation of the internal control structure of the Department of Natural Resources, Grand Rapids Region II in effect as of April 1990.

Our receipt testing was restricted due to the decentralized location of the receipts collected for the Department of Natural Resources, Grand Rapids Region II. We were able to audit the receipts collected at Bearhead Lake State Park, Gooseberry Falls State Park, Soudan Underground Mine State Park, and Splitrock Lighthouse State Park. However, disbursements were not affected as a result of the restriction on receipts.

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, Grand Rapids Region II 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, Grand Rapids Region'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.

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Mr. Joseph Alexander, Commissioner  
Mr. John Chell, Regional Administrator  
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### Management Responsibilities

The management of the Department of Natural Resources, Grand Rapids Region 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:

- Bearhead Lake State Park cash receipts,
- Gooseberry Falls State Park cash receipts,
- Soudan Underground Mine State Park cash receipts,
- Splitrock Lighthouse State Park cash receipts,
- timber sale cash receipts,
- general expense and contractual services disbursements, and
- payroll.

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 findings 1 and 2 involving the internal control structure of the Department of Natural Resources, Grand Rapids Region II. We consider these conditions

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Mr. Joseph Alexander, Commissioner  
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to be reportable conditions 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.

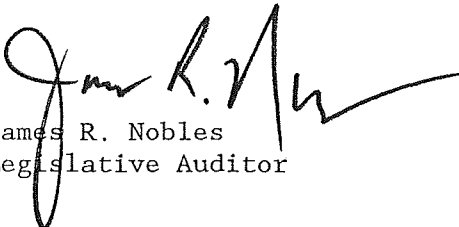
A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may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

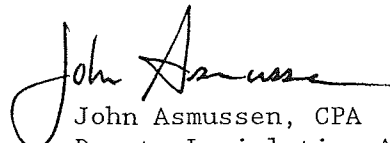
We also noted other matters involving the internal control structure and its operation that we reported to the management of the Department of Natural Resources, Grand Rapids Region II at the exit conference held on August 7, 1990.

The results of our tests indicate that, except for the issues discussed in findings 1 and 2, with respect to the items tested, the Department of Natural Resources, Grand Rapids Region II 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, Grand Rapids Region II 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, Grand Rapids Region. 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, Grand Rapids Region 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  
GRAND RAPIDS REGION

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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:

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



DEPARTMENT OF NATURAL RESOURCES  
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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 II office of the DNR is located in Grand Rapids. 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 regional administrator is responsible for coordinating and monitoring the field activities of these disciplines and supervising the administrative matters of the region. The Grand Rapids region also has area and district offices located throughout central Minnesota to assist in conducting the programs and activities of the various disciplines.

The Grand Rapids regional office had total disbursements of \$16.3 million in fiscal year 1987, \$18.6 million in fiscal year 1988, and \$20.9 million in fiscal year 1989. Payroll comprised about 66 percent, 64 percent and 62 percent for fiscal years 1987, 1988 and 1989, respectively. General expense and contractual services accounted for 19 percent of total disbursements for fiscal year 1987 and 21 percent and 24 percent for fiscal years 1988 and 1989, respectively. The Grand Rapids region has 16 state parks which generated approximately \$751,406, \$900,555, \$1,050,885 and \$1,228,995 in receipts during fiscal years 1986, 1987, 1988 and 1989, respectively.

Sources of Financial Information:

Statewide Accounting Managers Financial Reports dated September 5, 1987, September 3, 1988, and September 2, 1989. Department of Natural Resources Parks and Recreation Division agency records.

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II. CURRENT FINDINGS AND RECOMMENDATIONS

1. The region possibly paid one employee unnecessary on-call pay.

The Grand Rapids region may not have used on-call pay appropriately. Without proper supervision for on-call pay, the region may be incurring unnecessary costs.

On call pay is available to employees who remain available to work during the off-duty period. The region office paid one employee over \$6,300 in on-call pay during ten of the months between July 1, 1988 to June 1, 1990. The employee was on-call for approximately 1,820 hours and received on-call duty without any written authorization or schedule. The applicable personnel plan specifies an employee will receive written notification if required to remain available to work during an off-duty period. The compensation for an employee who is on-call equals 15 minutes of straight time pay for each one hour of on-call duty. This compensation is limited to four hours of straight time pay per calendar day.

The employee in question is an information officer for the region office who is also assigned to work with the Northern Fire Center during the peak fire season. The employee's tasks include answering media questions and issuing press releases during high to extreme fire danger and incidence. Grand Rapids personnel informed us that they have a mutual understanding with this employee. The employee is on-call during the fire season unless instructed otherwise. The fire season typically includes April, May, August and September. Review of the employee's timesheets showed a pattern of the employee receiving pay for the normal 8 hour work day and then being on-call for 16 hours. Without an established schedule, we could not ascertain whether these hours were authorized or even needed. We feel it is unnecessary to have this particular employee continuously on-call, especially if the fire threat is low.

RECOMMENDATIONS

- The Grand Rapids region should reevaluate the necessity of having an employee routinely on-call throughout the fire season.
- In the future, any on-call duty should be authorized in writing and proper notification given to the employee.

2. Internal controls over some park receipts are inadequate.

The regions parks are not consistently reconciling their cash receipts and are not handling overages and shortages properly. Also, the parks are not documenting or reviewing voids or adjustments to sales. The practices of not reconciling receipts or monitoring voids, increases the chance of errors or irregularities occurring and going undetected. Without proper management of overages and shortages, sales figures could be misstated.

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Soudan Underground Mine is not properly reconciling the cash receipts. The park has both manual records and cash register tapes to support the daily receipt activity. We found instances where the cash register tapes did not agree with the amount of deposit. The differences we noticed were both over and under the amounts deposited, and there was no evidence that the differences were investigated. Strong internal controls require verification of receipts. The cash register tape is the key instrument in this verification. Any discrepancies must be investigated and resolved.

Overages and shortages are not being properly handled by Splitrock Lighthouse and Soudan Underground Mine. Finance policy #06:06:09 states:

Agencies should establish an over and short account within the imprest cash fund. This account will be used to record on a daily basis, overages and shortages of cash receipts.

Instead of reporting the amount over or short, both parks adjust the sales figures on the daily reports. The employees at Splitrock informed us that during the busy season they do not ring all sales through the cash register. They make adjustments to reflect the amount of cash they have on hand at the end of the day. This procedure both understates revenue and increases the risk of improprieties.

Voids and adjustments are not being documented nor reviewed at Gooseberry Falls, Splitrock Lighthouse, and Soudan Underground Mine. For example, we noted a \$168 voided transaction which was not documented. A secure internal control system requires a mechanism to assure voids or adjustments made to sales receipts are documented and approved.

RECOMMENDATIONS

- Soudan Underground Mine should reconcile the cash register tapes to the amount of deposit. If any discrepancies exist, they must be investigated and resolved.
- Splitrock Lighthouse and Soudan Underground Mine should follow finance policies when reporting any overages or shortages. All receipts should be rung up on the cash register at the time of sale.
- Gooseberry Falls, Splitrock Lighthouse, and Soudan Underground Mine should require all voided or adjusted transaction to be documented. These must be reviewed on a regular basis by the park managers.



STATE OF  
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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, Grand Rapids Region, for the four-year period ended June 30, 1989.

**RECOMMENDATION #1:** The state experienced extreme fire hazard during significant portions of the period from July 1, 1989, through June 30, 1990, and the information officer was on-call only when conditions were severe. In order to more closely control the on-call pay, a written policy for on-call for the information officer will be developed by the Regional Administrator and the fire center. The policy will include written notification to the employee consistent with bargaining unit provisions.

**Person Responsible:** John Chell  
**Implementation Date:** September 1, 1990

**RECOMMENDATION #2:** This recommendation pertains to the internal controls over state park receipts. In response, the Division of Parks and Recreation will issue a memo to all state parks addressing (1) reconciling cash register tapes to deposits, (2) overages and shortages, and (3) voided or adjusted transactions.

**Person Responsible:** Bill Brinker  
**Implementation Date:** October 1, 1990

Yours truly,

Joseph N. Alexander  
Commissioner

cc: Margaret Jenniges  
Eugene Gere  
John Chell  
Dick Bengtson  
Bill Morrissey  
Bill Brinker