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**DEPARTMENT OF NATURAL RESOURCES  
CENTRAL OFFICE  
FINANCIAL AUDIT  
FOR THE THREE YEARS ENDED JUNE 30, 1991**

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**FEBRUARY 1992**

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

**92-7**



**DEPARTMENT OF NATURAL RESOURCES  
CENTRAL OFFICE  
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# SUMMARY

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

## DEPARTMENT OF NATURAL RESOURCES CENTRAL OFFICE

### FINANCIAL AUDIT JULY 1, 1988 - JUNE 30, 1991

Public Release Date: February 6, 1992

No. 92-7

#### OBJECTIVES:

- **EVALUATE INTERNAL CONTROL STRUCTURE:** Permanent School Fund timber sales, land sales, and mineral receipts; BWCA receipts; Boat Safety receipts; other timber receipts; purchased services and professional/technical contracts; supplies; payroll; Sport Fish Restoration federal program; travel expenditures; grants; rent and leases; and shared revenue with counties.
- **TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.**

#### CONCLUSIONS:

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

- DNR did not establish contractual agreements on a timely basis.
- Controls over the purchasing, receiving, and payment of supply expenditures need to be improved.

We found no departures from finance-related legal provisions.

Contact the Financial Audit Division for additional information.

*FINANCIAL AUDIT DIVISION*





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann Rest, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Rodney Sando, 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, 1991. These programs are Forestry, Parks, and Special Services. 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, 1991.

In addition, we audited the following areas as part of our 1991 statewide audit:

- Sport Fish Restoration federal program;
- Permanent School Fund timber sales and minerals receipts; and
- Permanent School Fund land sales 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 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:

- Permanent School Fund timber sales and minerals receipts,
- Permanent School Fund land sales receipts,
- BWCA receipts (federal),
- Boat Safety receipts (federal),
- Other timber sales receipts,
- Purchased services and professional/technical contracts,
- Supplies,
- Payroll,
- Sport Fish Restoration federal program,
- Travel expenditures,
- Grant expenditures
- Rent and leases, and
- Shared revenue with counties.

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 and 2 involving the internal control structure of the Department of Natural Resources. We consider these conditions to be reportable conditions under standards established by the American Institute of Certified Public Accountants.

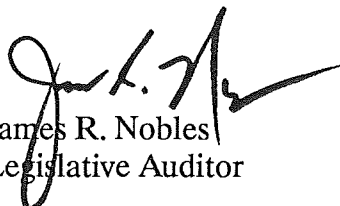
Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

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.

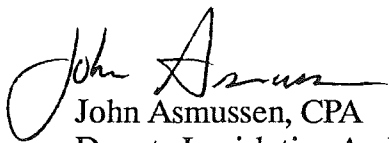
However, we noted other matters involving the internal control structure and its operation that we reported to the management of Department of Natural Resources in a meeting held on January 7, 1992 .

The results of our tests indicated that, that with respect to the items tested, 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 February 6, 1992.



James R. Nobles  
Legislative Auditor



John Asmussen, CPA  
Deputy Legislative Auditor

End of Fieldwork: December 2, 1991

Report Signed On: January 30, 1992



## 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
Kari Irber, CPA	Auditor-in-Charge
Joan Haskin, CPA	Staff Auditor
Amy Jorgenson	Staff Auditor
Brian Stueve	Intern

### Exit Conference

The findings and recommendations in this report were discussed with the following staff on January 7, 1992:

Gene Gere	Assistant Commissioner
Al Yozamp	Financial Management Bureau Administrator
John Bouthilet	Financial Management Bureau Supervisor
Jerry Hampel	Financial Management Bureau Supervisor
Norm Kordell	Field Services Administrator
Mary Jane Davis	Federal Aid Coordinator
Joyce Nyhus	Forestry Division Business Manager
Kim Elverum	Boat and Water Safety Section Coordinator



## Department of Natural Resources

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### Introduction

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The Department of Natural Resources (DNR) consists of the central office and six regional offices. Each of the regional offices has its own business manager. We audit each region as a separate entity. Rodney W. Sando serves as the commissioner. The department has established eleven programs to achieve its 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 programs, and administrative services. The audit included the divisions of Forestry, Parks, and Special Services.

The Forestry Division manages and protects Minnesota's forest resources. The division's function includes forest fire protection, insect and disease protection on forest land, management of state forest and other state-owned lands, directing the sale of timber from state-owned lands, builds and maintaining state forest lands and many other functions. The total program expenditures paid from central office accounts for fiscal year 1991 for the Forestry Division were \$14,525,800. The main funding source for Forestry is from the General Fund. The division also receives some federal funds.

The Parks Division develops and manages a system of 64 state parks and 10 waysides. The central office coordinates the management of the parks. The total program expenditures paid from central office accounts for fiscal year 1991, as recorded in the Statewide Accounting System, were \$3,894,600. The main funding source for Parks Central Office is from the General Fund.

The Special Services Division is actually comprised of several sections that are too small to be separate divisions. The Office of Planning provides planning, research, policy development, organization and management analysis, and interdisciplinary review to the Commissioner's office and the operating divisions within the department. The Bureau of Information and Education provides news and information to the public concerning Minnesota's natural resources and DNR programs. The Office of Volunteer Services organizes volunteers who donate time to the DNR. The Minnesota Conservation Corps which is administered by the Youth Programs office, has two main objectives: to enhance and protect the state's natural resources and to provide meaningful employment to the state's young people. The Bureau of Human Resources provides the department with personnel services for employing, training and maintaining the DNR staff. The total central office expenditures for fiscal year 1991 for the Special Services Division were \$6,583,400. The main funding source for the division is the General Fund.

## Department of Natural Resources

Revenue and expenditures for fiscal year 1991 included in the audit scope are shown below:

	Fiscal Year <u>1991</u>
Revenue:	
Permanent School Fund timber sales	\$1,990,600
Permanent School Fund mineral royalty	1,398,900
Boundary Waters canoe area (federal)	1,065,200
Boat safety	1,623,500
Land sales	1,533,300
Other timber receipts	1,862,400
Expenditures:	
Supplies	\$ 1,817,400
Payroll	10,935,800
Sport fish restoration	7,034,700
Grant disbursements	3,135,200
Travel expenditures	378,300
Purchased services and professional/technical contracts	2,683,000
Rent and leases	1,002,500
Shared revenue with counties	83,500

Source: Statewide Accounting System reports as of August 31, 1991.

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## Current Findings and Recommendations

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### 1. DNR did not establish contractual agreements on a timely basis.

DNR needs to improve the controls over contractual expenses. DNR frequently incurs obligations before a contract is finalized and funds encumbered. Minn. Stat. Section 16A.015 requires that funds are encumbered before an obligation is incurred. An agency may send a letter to the Department of Finance explaining the reason for the delay in signing the contract. However, DNR frequently provides such letters explaining the necessity of beginning work before the contract is approved and funds are encumbered. For example, the Minnesota Historical Society began work on a \$176,645 project in January 1990, but the contract was not approved until July 3, 1990. Five out of eleven contracts tested were signed after the work had been started. DNR should be obtaining approval on the contracts before work begins.

DNR also did not follow proper procedures for standby time and optional time for helicopter services. Standby time is time that DNR guarantees to the helicopter service for on-call time. Standby time should be specified in a contract. For one vendor, DNR did not obtain a contract for standby time. The total payment including standby time was over \$12,000. DNR should ensure that it has contracts for these services. Without a contract, DNR is not in compliance with Minnesota Statute 16A.015 which states that obligations should not be incurred before the money is properly encumbered.

#### *Recommendation*

- *DNR should ensure that contracts are finalized before incurring obligations.*

### 2. Controls over the purchasing, receiving and payment of supply expenditures need to be improved.

DNR did not always obtain the necessary three bids for purchases over \$300 as required by Minn. Stat. Section 16B.07. In 3 out of 26 items tested, bids were not obtained. One item was purchased at a cost of \$781.

Controls over receiving items need to be improved. Often, the person who ordered an item also receives it. Also, in 16 of 32 purchases tested, the packing slip was not attached nor was the invoice signed to indicate receipt of goods. The person approving the payment should verify that a packing slip is on file or the invoice is signed indicating the receipt of goods.

## Department of Natural Resources

### *Recommendations*

- *DNR should ensure that bids are taken and documented for goods over \$300.*
- *Before approving the payment, DNR should ensure that either a packing slip is on file or the invoice is signed, indicating the goods were received.*





STATE OF  
**MINNESOTA**  
**DEPARTMENT OF NATURAL RESOURCES**

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

OFFICE OF THE  
COMMISSIONER

DNR INFORMATION  
(612) 296-6157

January 22, 1992

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 DNR Central Office for the three year period ended June 30, 1991.

**RECOMMENDATION #1:** DNR Policy/Procedure NR 06:04:05 "Contractual Services" requires that all contracts be fully executed and funds encumbered before work begins. To address this finding the Financial Management Director has reminded all business managers that they must monitor contracts to ensure procedures are being followed. In addition, this issue is being addressed at various staff meetings throughout the agency.

**Person Responsibles:** Al Yozamp, Division Business Managers, Bureau Fiscal Liaisons  
**Implementation date:** Implemented (see attached memo).

**RECOMMENDATION #2:** DNR Policy/Procedure 06:04:04 "Ordering Directly from a Vendor" requires that bids be taken for purchases over \$300. To address this finding the Financial Management Director has required that all business managers monitor purchasing to ensure procedures that procedures are being followed. In addition, the Field Services Bureau reviews all purchase orders under expanded local purchase authority and investigates any problems. Two of the three missing bids occurred before this review process was initiated in February 1991.

DNR Policy/Procedure 06:04:04 requires that the receipt of purchases be indicated on the invoice or a packing slip attached. To address these findings the Financial


James R. Nobles  
Legislative Auditor  
January 22, 1992  
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Management Director has required all business managers to monitor payments to ensure procedures are being followed.

**Persons Responsible:** Al Yozamp, Norm Kordell,  
Division Business Managers and  
Bureau Fiscal Liaisons

**Implementation Date:** Implemented (see attached memo).

Yours truly,



Rodney W. Sando  
Commissioner

cc: Commissioner's Management Team  
Margaret Jenniges  
Norm Kordell  
Al Yozamp  
John Bouthilet

DEPARTMENT : NATURAL RESOURCES

STATE OF MINNESOTA

## Office Memorandum

DATE : January 24, 1992

TO : Division Business Managers  
Bureau Fiscal LiaisonsFROM : Allen A. Vozamp, Administrator  
Financial Management Bureau

PHONE : 296-2188

SUBJECT : Legislative Audit Findings - Central Office F.Y. 1991.

The Legislative Auditor recently concluded their audit for the DNR Central Office for the three years ending June 30, 1991. The findings and recommendations indicate that we are not always following written procedures for contracts and the purchase of goods and services.

DNR Policy/Procedure NR06:04:05 "Contractual Services" requires that all contracts be fully executed and funds encumbered before work begins. As stated in the audit this department has far too many exceptions that result in explanation letters (chapter 16a) to the Department of Finance. We expect business managers and fiscal liaisons to continually review contracts and ensure that all appropriate employees are aware of these procedures.

DNR Policy/Procedure NR 06:04:04 "Ordering Directly From a Vendor" requires (1) that bids be taken on the bid form for goods over \$300, and (2) that the receipt of goods or services be documented indicated either by signing the invoice or by a packing slip. Again, we expect business managers and fiscal liaisons to ensure that these procedures are being followed.

In addition, to your efforts the Bureau of Field Services reviews and audits each purchase order or invoice to ensure that proper procedures are followed.

Your continuing effort in ensuring that procedures are followed will minimize future findings in this area. A copy of the audit will be distributed when it is released by the Legislative Auditor.

cc: Commissioner's Management Team  
Regional Business Managers  
Margaret Jenniges  
Norm Kordell  
John Bouthilet  
Jerry Hampel