

**DEPARTMENT OF NATURAL RESOURCES  
BRainerd REGION III**

**FINANCIAL AUDIT**

**FOR THE THREE YEARS ENDED JUNE 30, 1991**

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**October 1992**

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

**92-73**



# **DEPARTMENT OF NATURAL RESOURCES - BRainerd REGION III**

## **FINANCIAL AUDIT FOR THE THREE YEARS ENDED JUNE 30, 1991**

Public Release Date: October 9, 1992

No. 92-73

### **OBJECTIVES:**

- EVALUATE INTERNAL CONTROL STRUCTURE: employee payroll; forestry division disbursements; parks division disbursements.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

### **CONCLUSIONS:**

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

- The Brainerd office needs to work with the central office to monitor contract terms and limit payments according to those terms.

We found no departures from finance-related legal provisions.

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





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Representative Ann Rest, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Rodney Sando, Commissioner  
Department of Natural Resources

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

## **Audit Scope**

We have conducted a financial related audit of the Department of Natural Resources Region III - Brainerd as of and for the three years ended June 30, 1991. 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 Region III - Brainerd, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Department of Natural Resources Region III - Brainerd in effect as of April 1992.

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 Region III - Brainerd 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 Region III - Brainerd'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 Region III - Brainerd 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:

- Employee payroll,
- Forestry Division disbursements, and
- Parks Division disbursements.

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 Region III - Brainerd. We consider this condition to be 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

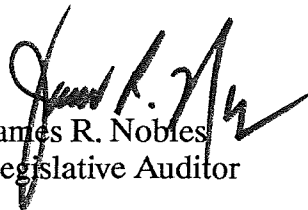
Representative Ann Rest, Chair  
Members of the Legislative Audit Commission  
Mr. Rodney Sando, Commissioner  
Mr. Robert Hance, Regional Administrator  
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the normal course of performing their assigned functions. We believe none of the reportable conditions described above is a material weakness.

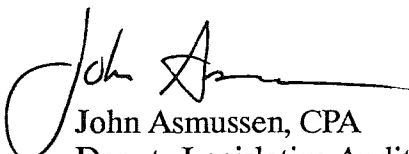
The results of our tests indicate that, with respect to the items tested, the Department of Natural Resources Region III - Brainerd complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Department of Natural Resources Region III - Brainerd 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 Region III - Brainerd. This restriction is not intended to limit the distribution of this report, which was released as a public document on October 9, 1992.

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



James R. Nobles  
Legislative Auditor



John Asmussen, CPA  
Deputy Legislative Auditor

End of Fieldwork: June 2, 1992

Report Signed On: October 2, 1992





**Department of Natural Resources  
Region III - Brainerd**

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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
Carl Otto, CPA	Auditor-in-Charge
Judy Cammack, CPA	Auditor

**Exit Conference**

The findings and recommendations in this report were discussed with the following staff of the Department of Natural Resources Region III - Brainerd at an exit conference on May 22, 1992:

Robert Hance	Regional Administrator
Jim Rausch	Regional Business Manager



**Department of Natural Resources  
Region III - Brainerd**

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**Introduction**

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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. The DNR has established 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 who oversees the general administrative matters for the various divisions and the business office. There are regional directors for the following DNR divisions: Forestry, Wildlife, Fisheries, Parks, Enforcement, Waters; one special unit of Trails and Waterways. The regional division directors report to the central office in St. Paul for program matters.

The Department of Natural Resources Region III - Brainerd revenues and expenditures for the three fiscal years ended June 30, 1991 are as follows:

	<u>1991</u>	<u>1990</u>	<u>1989</u>
Expenditures:			
Payroll	\$13,172,398	\$12,431,815	\$11,091,971
Forestry Division	1,564,224	1,357,720	1,264,657
Parks Division	625,902	806,603	555,939
Other Divisions	<u>2,307,851</u>	<u>2,762,776</u>	<u>2,470,412</u>
Total Expenditures	<u>\$17,670,375</u>	<u>\$17,358,914</u>	<u>\$15,382,979</u>
Total Revenue	<u>\$ 990.193</u>	<u>\$ 875.192</u>	<u>\$ 844.309</u>

Sources: Statewide Accounting Managers Financial Reports dated September 3, 1991; September 11, 1990; and September 4, 1989. Department of Natural Resources Summary of Regional Receipts.

## Current Finding and Recommendation

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**1. The Brainerd regional office did not limit payments in accordance with contract terms.**

Neither the Brainerd office or the DNR central office monitors the administrative costs for the parks and forestry maintenance contracts with Green View, Inc. As a result, contract payment terms were exceeded. The contract with Green View stipulates the maximum amount to be paid each fiscal year for administrative and payroll costs at each region.

The parks maintenance agreement with Green View, Inc. states that administrative and office expenses shall not exceed 25 percent of workers wages. The fiscal year 1990 parks contract administrative costs for Brainerd exceeded the agreement by \$690. Total administrative costs for all regions exceeded the 25 percent limit by \$4,830. This overpayment should be recovered from Green View, Inc.

The forestry maintenance agreement specifies the amount of administrative costs for each region. The fiscal year 1989 and 1990 administrative costs for Brainerd exceeded the contract by \$2,562 and \$997, respectively. Administrative costs for all regions exceeded the contract by \$5,660 in fiscal year 1989 and \$2,097 in fiscal year 1990. The overpayment of \$7,757 should be recovered.

The DNR central office negotiates one forestry and one parks maintenance contract for all regions. The Brainerd office thought that the central office was monitoring overall payment limits. The central office gives copies of the contract to each region. However, since the vendor sends the invoices to the regional offices, the central office has been unable to monitor the contract terms.

### *Recommendations*

- *DNR should seek recovery of the \$12,587 overpayment from Green View, Inc.*
- *The Brainerd office should work with the central office to monitor contract terms and limit payments accordingly.*



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

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

OFFICE OF THE  
COMMISSIONER

DNR INFORMATION  
(612) 296-6157

September 25, 1992

Mr. James R. Nobles, Legislative Auditor  
Office of the Legislative Auditor  
First Floor, Centennial Office Building  
St. Paul, Minnesota 55155

Dear Mr. Nobles:

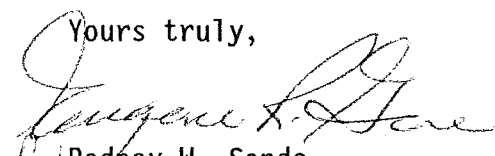
The purpose of this letter is to outline the action to be taken to resolve the audit findings in the recently concluded audit of the Department of Natural Resources (DNR), Brainerd Region, for the three-year period ended June 30, 1991.

The DNR Divisions of Forestry and Parks will review the billings and payments made to Greenview for F.Y. 1989 and F.Y. 1990. They will seek recovery of any amounts clearly in excess of the agreed administrative limits.

The DNR Divisions of Forestry and Parks will clarify with Greenview the allowable administrative limits on the existing contract ending in June, 1993, and on future agreements. The DNR regions will be informed of the allowable costs on each contract. Central Office Forestry and Parks staff will monitor payments to ensure limits are not exceeded.

**Persons Responsible:** Joyce Nyhus, Bill Brinker  
**Implementation Date:** January 25, 1993

Yours truly,

  
Rodney W. Sando  
Commissioner

cc: Margaret Jenniges  
Eugene Gere  
Bob Hance  
Bill Morrissey  
Jerry Rose  
Al Yozamp  
John Bouthilet  
Bill Brinker  
Jerry Hampel  
Joyce Nyhus  
Jim Rausch