DEPARTMENT OF NATURAL RESOURCES

*SELECTED SCOPE FINANCIAL AUDIT

Nursery, Forest Trust Fund, Fleet Management, & Other Issues

FOR THE YEAR ENDED JUNE 30, 1992

DECEMBER 1993

*See description of this new report style in the following Note to Report Readers.

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

93-61

Centennial Office Building, Saint Paul, MN 55155 • 612/296-4708

DEPARTMENT OF NATURAL RESOURCES

SELECTED SCOPE FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1992

Public Release Date: December 23, 1993 No. 93-61

AGENCY BACKGROUND

The Department of Natural Resources is charged with the management of public waters, lands, parks, forests, and minerals, as well as with the regulation of a broad range of activities that affect natural resources. Rodney W. Sando is the commissioner of the department.

SELECTED AUDIT AREAS

- *Tree Nursery Program*

DNR's operation of the tree nursery program has incurred continuous deficits since 1986. These deficits have reduced the working capital and resulted in cash flow problems. The nursery program lacks comprehensive financial information. It uses poor billing practices and an inadequate cost accounting system. Because of these financial difficulties, DNR has had to improperly advance funds to the nursery program since 1991.

- *Allocation of Forestry Costs to Trust Funds*

The forestry division uses a formula to distribute resources to the Permanent School and Permanent University Trust Funds. However, because the formula contains incorrect formula data and assumptions, inaccurate charges to the trust funds and to the General Fund occur. In addition, the costs incurred by DNR for managing the trust fund lands over the past 14 years have exceeded revenue by $16 million. The administrative costs include significant development expenditures attributable to the department's investment policy to generate future revenues.

- *Fleet Management*

DNR has established a rate-setting process that adequately funds the fleet management program. However, we question the department's decision to pay for $223,400 of cleanup costs from the fleet account.

- *State parks - Minimum Operating Standards System*

We believe the parks division has substantially met its original objectives of establishing a more equitable budget allocation system. The division used the system to allocate staff resources, costing $6 million, to the state parks in fiscal year 1992.

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

FINANCIAL AUDIT DIVISION

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Department of Natural Resources

Audit Scope

We have conducted a financial related audit of the Department of Natural Resources as of and for the year ended June 30, 1992. Our audit was limited only to a portion of the Department of Natural Resources as discussed in the following paragraphs and in Chapter 1. Chapters 2 through 5 discuss the results of our audit.

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 that the financial activities attributable to the selected audit areas of the Department of Natural Resources are free of material misstatements.

Our audit was limited to a review of sources of incoming funds, their allocation, and certain expenditures of the Department of Natural Resources, as shown in the Introduction. Specifically, we reviewed the following:

-- Tree nursery program.

-- The allocation of forestry costs to trust funds.

-- The state parks minimum operating standards system.

-- The fleet management program.

For each 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 put into operation. We assessed control risk as of March 1993.

As part of our study and evaluation of the internal control structure, we performed tests of the Department of Natural Resources' compliance with certain provisions of laws, regulations and policies. 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 and regulations. In fulfilling the responsibility, estimates and judgements 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 systems 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.

Conclusions

Our review of selected program areas identified areas of concern relating to the selected aspects of the Department of Natural Resources. We discuss our specific conclusions in Chapters 2 through 5.

In Chapter 2, we discuss our conclusions from the review of the tree nursery program. The program has incurred continuous deficits. The nursery program lacks comprehensive financial information. Because of these financial difficulties, DNR has had to improperly advance funds to the nursery program.

In Chapter 3, we discuss our conclusions from the review of the allocation of forestry costs to trust funds. We identified factors used in the allocation that contain flawed assumptions.

Chapter 4 discusses the fleet management program. DNR has established a rate-setting process that adequately funds the program. However, we conclude that the department inappropriately charged $223,400 in petroleum tank and other clean up costs to the program.

Chapter 5 discusses the state parks minimum operating standards system. We believe the parks division has substantially met its original objectives of establishing a more equitable budget allocation system.

We also noted other matters involving the internal control structure and it's operation that we reported to the management of the Department of Natural Resources at the exit conference held on October 20, 1993.

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 the report, which was released as a public document on December 23, 1993.

We would like to thank the Department of Natural Resources for their cooperation during this audit.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: June 14, 1993

Report Signed On: December 15, 1993

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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
Jack Hirschfeld, CPA	Auditor-In-Charge
Ron Mavetz, CPA	Auditor
Steve Pyan, CPA	Auditor
Susan Rumpca, CPA	Auditor
Mark Johnson	Auditor

Exit Conference

The issues in this report were discussed with the following staff of the Department of Natural Resources on October 20, 1993.

Gene Gere	Assistant Commissioner
Gerald Rose	Director, Forestry Division
Dennis Ingvaldson	Assistant Director, Forestry Division
Douglas Ford	Forest Economist
Joyce Nyhus	Business Manager, Forestry Division
Bruce ZumBahlen	Resource Management Section Supervisor, Forestry Division
Miles Wiegand	Assistant Regional Forester
Ron Hains	Operations Manager, Parks and Recreation Division
Bill Brinker	Business Manager, Parks and Recreation Division
Norman Kordell	Administrator, Field Services
Tim Morse	Fleet Manager, Field Services
Al Yozamp	Administrator, Financial Management Bureau
John Bouthilet	Accounting Supervisor, Financial Management Bureau

Chapter 1. Introduction

The 1994-95 Biennial Budget states that "the mission of the Department of Natural Resources is to serve present and future generations of Minnesotans by professionally managing our rich heritage of fish, wildlife, waters, wetlands, forests, minerals, public lands, and other natural resources in order to preserve and enhance the environment. To this end, the agency is charged with the management of public waters, lands, parks, forests, and minerals, as well as with the regulation of a broad range of activities that affect natural resources."

The Department of Natural Resources (DNR) is the major land management state agency, administering about 94 percent of all state-owned land.

Table 1-1
DNR-Administered State Land
By Management Program

Management Program	Total Acres
Fish & Wildlife Land:	
Wildlife Management Areas	709,590
Fish Management Areas	26,138
Scientific & Natural Areas	11,622
Aquatic Management Areas	15
Outside Management Units	72,441
Total Fish & Wildlife Land	**819,806**
Forestry Land:	
Inside State Forests	3,324,215
Outside State Forests	1,022,177
Total Forestry Land	**4,346,392**
Parks & Recreation Land:	
State Parks	176,145
State Recreation Areas	4,811
State Waysides	3,959
Total Parks & Recreation Land	**184,915**
Trails & Waterways Land:	
State Trails	10,961
Water Access Sites (Public Access)	2,676
Wild & Scenic Riverways	1,238
Canoe & Boating Routes	891
Total Trails & Waterways Land	**15,766**
Minerals Land	**2,726**
DNR Administrative Sites	**1,337**
Miscellaneous Other Land	**746**
Total, All Programs	**5,371,688**

Source: DNR Real Estate Management Bureau.

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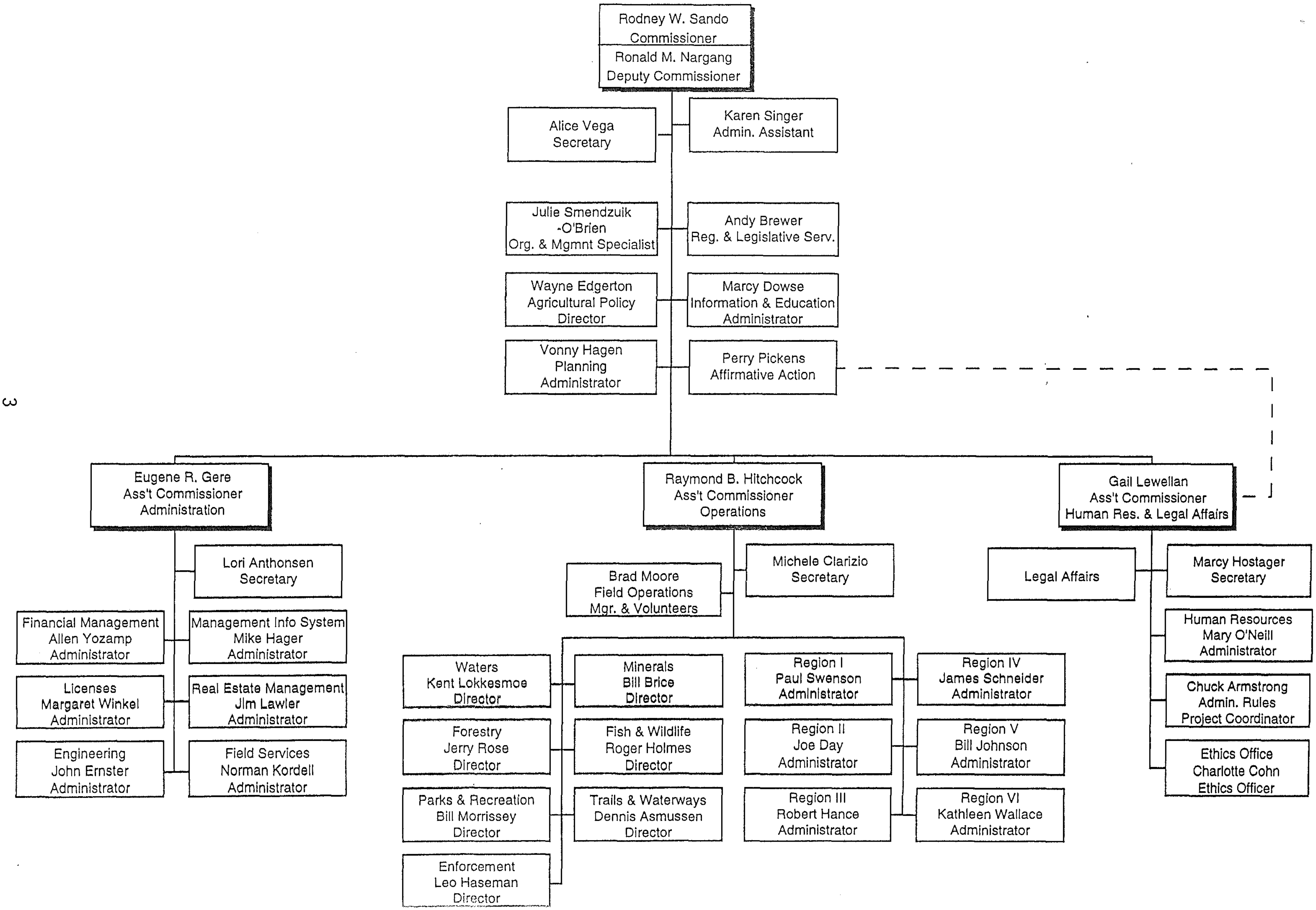
Of the state-owned lands, approximately 2.8 million acres are forested. These lands produce timber sale receipts of about $4.5 million annually. In addition, the department administers over 12 million acres of state-owned mineral rights and over 3 million acres of peat deposits. Annual royalty revenues from state-administered minerals are approximately $6 million. The total department earnings generated from all sources in fiscal year 1992 amounted to $108 million.

The department has approximately 3,200 employees. As shown in Figure 1-1, the department consists of seven divisions including Forestry, Waters, Parks and Recreation, Fish and Wildlife, Minerals, Enforcement, and Trails and Waterways. Directors of each division report to the Assistant Commissioner for Operations.

FIG 1-1

Minnesota Department of Na. Resources Organizational Chart

12/08/93



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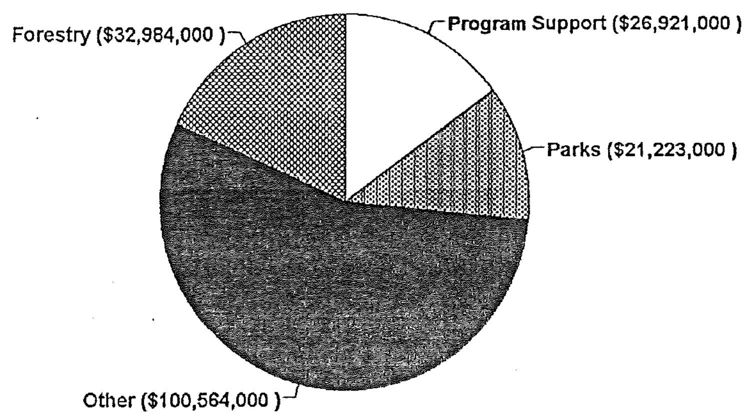
Operations are conducted throughout the state with an organizational structure consisting of six regions. Each region has supervisors representing the divisions and a regional administrator who provides overall coordination and support. The regional support staff provide specialized services for field operations, including facility and equipment maintenance, inventory management, land sale and leasing administration, engineering, personnel management, financial management, information and education services, and office management functions. Most divisions within the regions also have area and sometimes district offices. The Minerals Division has two field offices (Hibbing and Ironton).

Separate appropriations are established by the legislature for each division. The divisions allocate the appropriations to each regional, area, and district office, state parks, and other locations based on an established budget. Expenditures for these divisions are compared to total department expenditures for fiscal year 1992 in figure 1-2.

Figure 1-2
Department of Natural Resources
Division Expenditures-Fiscal Year 1992



Source: Fiscal Year 1992 Managers Financial Report.

Our audit examined selected financial activities in the Divisions of Forestry, Parks and Recreation, and Administrative Support. Chapters 2-5 discuss our audit results further.

Chapter 2. Tree Nursery Program

Chapter Conclusions

DNR's operation of the tree nursery program has incurred continuous deficits since 1986. These deficits have reduced the working capital and resulted in cash flow problems. The nursery program lacks comprehensive financial information. It uses poor billing practices and an inadequate cost accounting system. Because of these financial difficulties, DNR has had to improperly advance funds to the nursery program since 1991.

The Division of Forestry manages 4.5 million acres of state-owned land and provides assistance to other public and private-owned forest lands. The division also coordinates federal forestry technical assistance and cost-share programs in the state. Major activities within forest management include timber sales, fire protection, and operation of the state nurseries. The state nurseries are responsible for raising tree seedlings.

The Brainerd region forestry supervisor provides general direction for the nursery program. There are nursery sites located at Willow River and Badoura. The nursery produces and distributes bareroot seedlings for reforestation, wildlife plantings, erosion control, shelterbelts, windbreaks, and Christmas tree production. The state nursery produces 22 different species of trees and shrubs, most of which are native to the state. Bareroot seedling production goals for the nursery program are established at 14 million seedlings per year comprised of 550 thousand transplants, 2.6 million hardwood seedlings, and 10.8 million conifer seedlings. Tree seedling distribution peaked in 1982 at 21.8 million. Distribution gradually declined to the current 14 million seedlings. The Willow River nursery also has the tree improvement program. This program improves the growth, life, and other characteristics of the tree seedlings sold at the nursery.

The nursery operation plants seeds in the fall, and harvests most seedlings two to three years later in the spring. The nurseries harvest some seedlings in the fall and maintains them in refrigerated storage until early spring for shipment to the southern counties of Minnesota. The nurseries sell most seedlings in spring, but do not collect some receipts until July or August of the following fiscal year. Statutory requirements limits the minimum number of seedlings per order to 500. State law also allows only certain uses for the purchased seedlings.

The nursery had a working capital base of over $700,000 in 1986. This working capital base has decreased to $31,000 in 1992. The erosion of the working capital base is the direct result of continuous annual deficits. The department recognized the operating problems of the nursery and completed a five year operational plan in March 1993. This plan presents several alternatives for making the nursery self sufficient.

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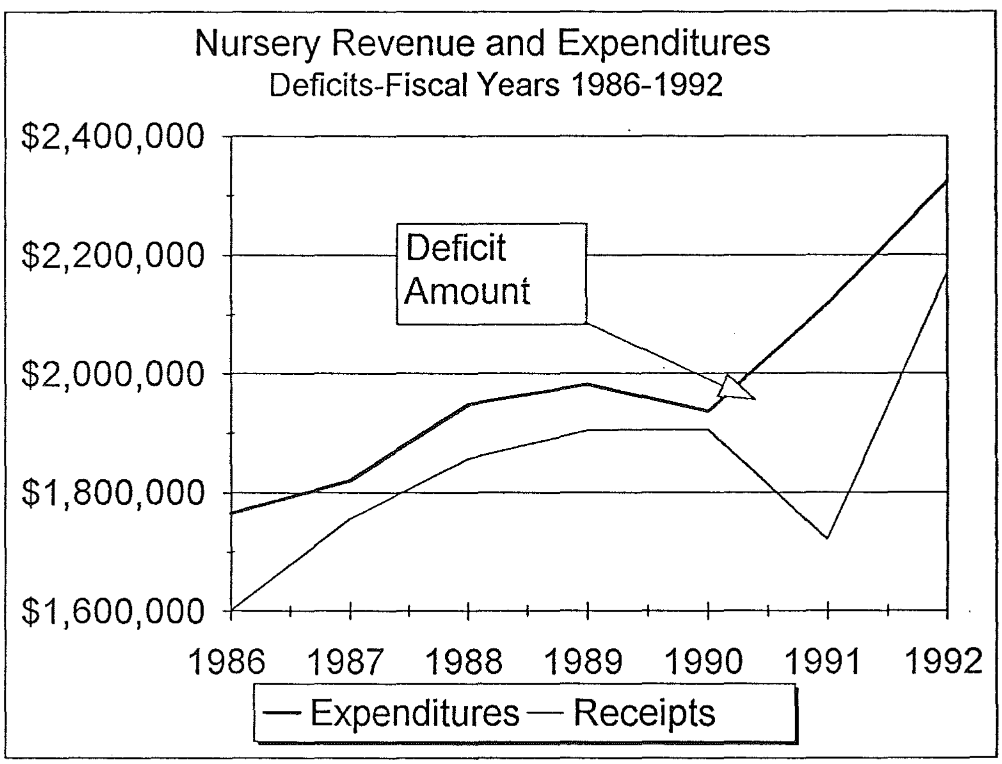
The nursery program maintains an imprest cash checking account for the purchase of seed cones from private individuals. The nurseries purchased over $27,000 in seed cones in fiscal year 1992. The nurseries maintain a master account at Willow River, and distribute money to fourteen forestry stations located throughout the northern half of the state for seed cone purchases.

1. The DNR tree nursery program has incurred continuous losses.

DNR has not established an adequate financial structure for the tree nursery operation. There has been a lack of comprehensive financial information and insufficient financial expertise. These problems have resulted in continuous losses since the inception of the nursery as a self-substaining operation. The annual deficits also reduced the working capital base from over $700,000 to $31,000. Chart 2-1 shows the revenue and expenditures for fiscal years 1986 through 1992.

Chart 2-1



Note: Fiscal years 1991 and 1992 revenue were reduced by inappropriate advances of $98,000 and $135,000, respectively.

Source: Statewide Accounting System Allotment Balance Within Appropriation Reports at the close of each fiscal year.

Several factors contributed to the deficit:

- DNR lacks adequate cost data to make informative decisions regarding the selling price of seedlings. The nursery does not have an adequate cost accounting system. A cost accounting system is essential in determining the cost of raising individual species. This information is an important factor in the decision process regarding the selling price of the seedlings. DNR started development of a computerized cost accounting system in 1991. However, the system has not been completed. The system as it currently exists does not allocate costs to individual species. This information should be available to assist in deciding the options available for recovering costs.

- In addition, the selling price does not take into account the market value of seedlings. For example, nursery staff stated that one private nursery questioned the selling price of $225 per thousand for black walnut seedlings. The private nursery was selling them for $600 per thousand. The nursery could have charged a higher price because of the market value, and would have recovered more of its costs.

- In fiscal years 1991 through 1993 the nursery constructed a building at a cost of about $246,000. The building was paid for from nursery revenue. This expenditure increased the deficit.

Because the program was operating in deficit status, the nursery experienced a cash flow problem. To address this problem, the Forestry Division improperly advanced $148,000 to the nursery during fiscal year 1993 as a partial payment for seedlings to be received during fiscal years 1994 through 1996. The division advanced money during fiscal year 1991 ($98,000) and fiscal year 1992 ($135,000) for seedlings to be received in the next fiscal year. The nursery also borrowed $500,000 during fiscal year 1993 from another account within the Forestry Division. The nursery has since repaid the loan. DNR does not have the authority to advance funds from these sources to the nursery program.

Recommendations

- *The Forestry Division should assign appropriate financial expertise to the nursery program.*

- *The nursery should improve its costs accounting ability. The cost accounting system should help determine the selling price of the seedlings.*

- *The Forestry Division should not advance funds to the nursery without the proper authority.*

2. The internal controls over the seed cone imprest cash account are not adequate.

The division does not monitor the nursery seed cone imprest cash account properly. The division does not perform an independent review of the account to ensure expenditures are appropriate.

The department does not review activity in the imprest cash account to determine if transactions are proper and unused money is returned promptly. The cash spent for seed cones in not reconciled to the monthly summary reports showing the amount of purchase. The division reconciled the account in 1990. We reviewed the current monthly summaries, and noted many discrepancies in the summary account and customer receipt documents. For instance, one area account indicated receipt of $1,307 of seed cones, while the master account showed expenditures totaling $720. We investigated this difference and identified the reconciling items. However, the division should reconcile the account annually.

Recommendation

- *Someone independent of the seed cone operation should reconcile the seed cone imprest cash account.*

Chapter 3. Allocation of Forestry Costs to Trust Funds

Chapter Conclusions

The Forestry Division uses a formula to distribute resources to the Permanent School and Permanent University Trust Funds. However, because the formula contains incorrect formula data and assumptions, inaccurate charges to the trust funds and to the General Fund occur. In addition, the costs incurred by DNR for managing the trust fund lands over the past 14 years have exceeded revenue by $16 million. The administrative costs include significant development expenditures attributable to the department's investment policy to generate future revenues.

The Forestry Division is responsible for forest fire prevention and suppression on about 23 million acres of private and public owned land. The division also administers approximately 4.6 million acres of state forest and other state-owned lands. Over 2 million acres of the land within state forests are trust fund land (Permanent School and Permanent University). Revenue from the sale or use of trust fund land increases the nonexpendable investment principal of the respective funds. The school districts and university annually receive income earned from the investment principal. Timber sales are the major source of revenue to the investment principal. DNR deposits revenue from timber sales into the state forest trust fund land suspense account. The Forestry Division provides the Commissioner of Finance with the total costs incurred for managing the trust fund land each fiscal year. The Department of Finance transfers revenue collected during the year up to the amount of the costs incurred by the state for forest management to the General Fund. The respective funds then receive the balance of the revenue.

The General Fund cost of administering these forestry programs was about $25 million in fiscal year 1992. Because of the difficulty in assigning costs to specific acreage, the division uses a formula to distribute costs to the various land types. We reviewed the reasonableness of the Forestry Division's allocation formula. From 1979 to 1991, costs have exceeded revenue. In fiscal year 1992, revenue exceeded costs by $299,000. However, incorrect formula data and assumptions were used in a few instances. The table below shows the reported revenue and costs of managing the trust fund land for fiscal year 1992.

Table 3-1
Trust Fund Revenue and Expenditures in Fiscal Year 1992

Trust Fund Revenue		$3,978,000
Trust Fund Costs:		
Fire Protection	$ 513,000	
Forestry Management	1,414,000	
Forestry Improvement	755,000	
Division Administrative Costs	997,000	
Total Costs		$3,679,000
Net Revenue		$ 299,000

Source: Fiscal Year 1992 Trust Fund Land suspense accounts report.

3. **There are flaws in the method used by the Forestry Division to allocate costs to the trust funds.**

The Forestry Division allocates costs to the trust funds based upon a reasonable approach. However, the division has not obtained accurate data necessary to distribute costs appropriately to the trust funds. Also, some of the assumptions used in the distribution are incorrect. The data and assumptions affect the revenue transferred to the trust funds. In fiscal year 1992 DNR distributed costs totaling $3,679,000 to the trust funds. DNR transferred $299,000 in revenue to the trust funds. The factors that reduce the accuracy of the computation include:

- -- Inaccurate trust fund acreage (2,056,381) used in computing the fire protection costs. Reports from the division and DNR Real Estate Management showed trust fund land totals ranging from 2,100,000 to 2,500,000 acres. Forestry division staff reviewed a land usage report and concluded that approximately 2,171,550 acres of trust fund land are in state forests. However, DNR is in the process of determining the exact acreage. The variance in the correct trust fund acreage was due to the difficulty in determining the amount of land within state forests. Had DNR used the 2,171,550 figure, fire protection costs for the trust funds would have increased by $29,000.

- -- Charging the entire cost ($425,000) identified with tree planting against the trust funds in fiscal year 1992. This increased the costs to the trust fund lands. The Forestry Division should allocate these charges to all lands within state forests where tree planting occurred.

-- Not allocating administrative costs to federal programs and other funding sources. Approximately $18 million in administrative costs incurred by the division were allocated to the General Fund or the Trust Funds. However, DNR did not allocate these costs to federal programs or other funding sources. These programs also incurred administrative costs. By not allocating these costs to all activities, the trust funds are absorbing excess costs.

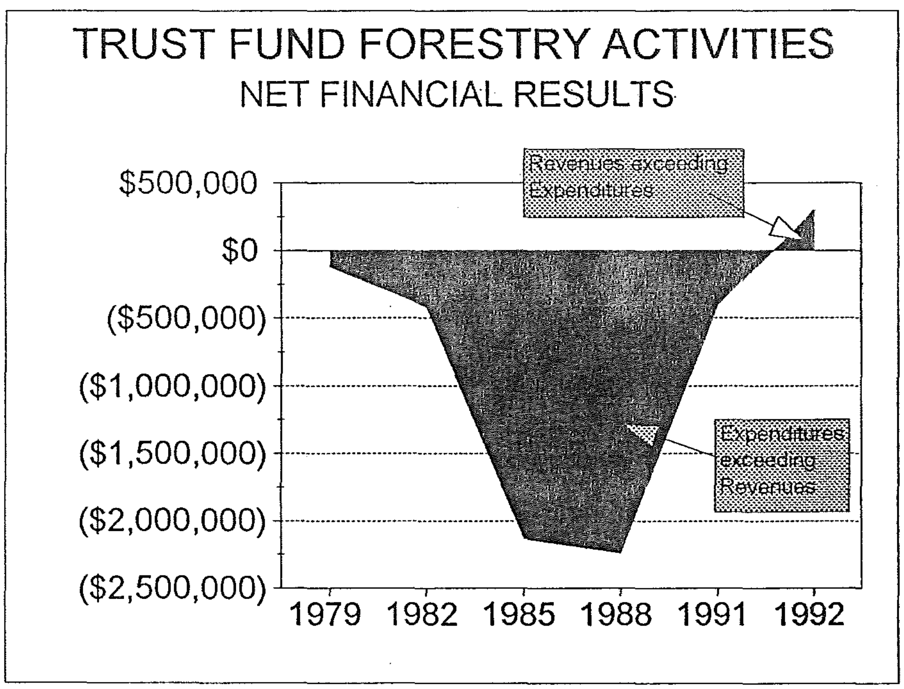
-- Not reducing the costs by any revenue collected for division activities, including the recovery of firefighting costs from private land owners ($230,000). DNR should allocate only the net costs among the land types. By not considering these receipts, excessive costs may be allocated to the trust funds.

Recommendation

- *The Forestry Division should develop accurate data and valid assumptions for use in the formula which distributes costs to the trust funds.*

During our review of the allocation process, we compared the costs of managing the trust fund lands to the revenues collected. We noted that DNR's costs of managing the trust fund lands exceeded revenue for the years 1979 through 1991 by over $16 million. In effect, the General Fund has subsidized the costs of managing the trust fund lands. Chart 3-2 shows the General Fund subsidy incurred by the Forestry Division related to administering trust fund lands.

Chart 3-2



Source: DNR Allocation Reports.

Department of Natural Resources

The revenue from use of the trust fund lands exceeded the costs by $299,000 for fiscal year 1992. While the previous finding shows the amount of the revenue from the trust fund lands may be affected by the errors and assumptions, the general trend displayed by the chart is accurate. The department generated net revenue for the trust funds in fiscal years 1992 and 1993, but the amount earned was not significant.

The division indicated that during the past 10 years it has been investing significantly in the development of the trust fund lands. According to division projections, this investment will benefit the trust funds with increased revenue. We noted that revenue exceeded expenditures in fiscal years 1992 and 1993. Division staff point out that since the early 1960's state laws limited development cost spending to $500,000 per year. In 1982 the legislature passed the Forest Management Act authorizing the trust funds to reimburse the General Fund for the amount of the management costs up to the amount earned. Expenditures for development increased to over $2.1 million in fiscal year 1989. The division attributed these high expenditures to the underspending which occurred during the previous two decades. The investment in these development costs was a significant effort by the division to increase benefits to the trust funds. DNR has since decreased development expenditures to approximately $750,000 per year.

To date, the trust fund has not generated significant net earnings from timber sales. There are approximately 2,100,000 acres of trust fund lands. Real Estate Management advised us that this acreage is worth $100 to $200 per acre. This means that the trust fund lands are conservatively valued at $250,000,000. The trust fund reported net earnings of about $300,000 in fiscal year 1992, representing a one-tenth of one percent return. DNR staff expect that revenue from the trust fund lands will increase within the next few years.

The department should review the expenditures incurred on behalf of the trust fund to determine what can be done to maximize earnings. Increasing revenue or determining alternative sources of revenue for trust fund land should also be considered.

Chapter 4. Fleet Management

Chapter Conclusions

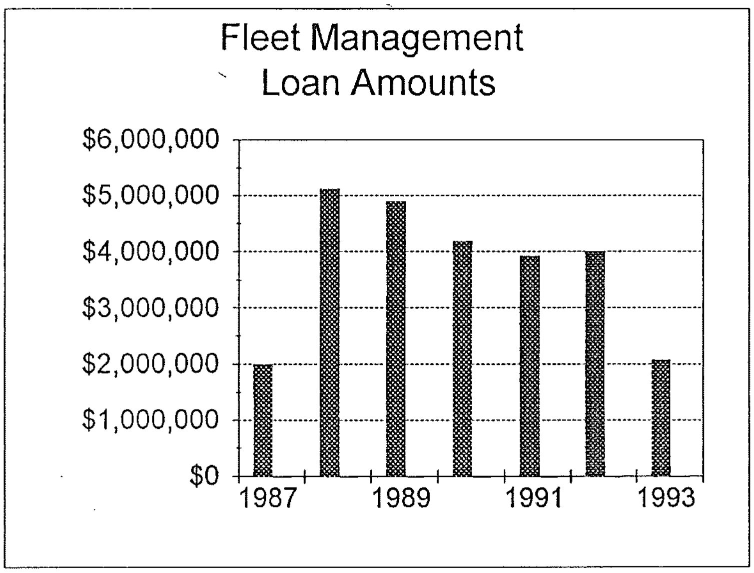
DNR has established a rate-setting process that adequately funds the fleet management program. However, we question the department's decision to pay for $223,400 of cleanup costs from the fleet account.

Administrative Support includes Field Operations, Regional Operations, Special Services, and Administrative Management Activities. These activities support the seven divisions' operations. Field Operations includes the field services bureau which administers the maintenance, repair and rehabilitation of over 2,000 DNR buildings, operates a department-wide safety program, manages the 23,500 fixed assets, coordinates the fleet management program, administers the department's procurement program, and coordinates other support activities. Our audit coverage was limited to the fleet management program.

Minn. Stat. Section 84.0856 authorized the fleet management program. The Field Services Division started the fleet management program in 1987 to replace old equipment and to provide better maintenance. We did not review the process used to start the program. The Department of Natural Resources uses the fleet management program to finance equipment purchases and to distribute the cost of equipment purchases to users.

Initially, about 65 percent of the department's equipment was old and met the replacement criteria set up for the fleet management program. Fleet management replaced most of the old equipment and now purchases new equipment as it meets the replacement criteria. Fleet management borrows money to purchase new equipment, with the equipment serving as collateral on the five year loans. DNR makes semi-annual loan payments in December and June of each fiscal year. Chart 4-1 shows the amount of loans incurred by fleet management for fiscal years 1987 through 1993.

Chart 4-1



Source: Fleet Management Payment Schedules.

A fleet management committee consists of division representatives and fleet management staff. The committee helped establish the useful life for each class of equipment. It continues to review replacement of equipment and to recommend policies and procedures for program operation. The committee also reviews rate adjustment requests for vehicles on an individual basis.

The rate setting process gathers and summarizes acquisition, salvage, insurance, usage, and maintenance data based on equipment class. Fleet management compares the income projection based on fleet rates and use to the program needs. It then adds an operating factor to the rates so the estimated income equals the program needs. The operating factor covers loan interest, licensing, maintenance, and other program costs. The rate setting process is flexible and allows for adjustments for unusual situations.

Employees enter equipment usage from Daily Unit Diaries into the billing system. The billing system matches the usage with the appropriate rate, and generates an invoice. Units pay the invoice with an interagency transaction. The fiscal year 1992 fleet usage rates were sufficient to finance the loan payments and vehicle maintenance. Financial activity of the fleet equipment program for fiscal year 1992 is as follows:

Table 4-2
Fleet Program
Fiscal Year 1992 Financial Activity

	Budget	Actual
Revenue:		
Fleet usage	$5,762,000	$5,940,000
Sale of equipment	340,000	483,000
Radio maintenance	685,000	752,000
Aircraft usage	160,000	223,000
Interest on investment	100,000	146,000
Other	26,000	49,000
Total Revenue	$7,073,000	$7,593,000
Expenditures:		
Loan repayment	$4,422,000	$4,448,000
Insurance	300,000	254,000
Licenses	40,000	46,000
Repair and Betterment	1,150,000	1,140,000
Indirect costs	30,000	29,000
Outright fleet purchases	30,000	22,000
Aircraft repair and maintenance	160,000	185,000
Radio repair and purchase	685,000	747,000
Petroleum cleanup	0	223,000
Total Expenditures	$6,817,000	$7,094,000
Net Revenue Over Expenditures	$ 256,000	$ 499,000
Beginning Balance	1,473,000	1,473,000
Ending Balance	$1,729,000	$1,972,000

Source: Actual: Fiscal year 1992 and 1993 Managers Financial Reports.
Budget: DNR Fleet Management Account Spending Plan.

Note: Actual column includes encumbrances of $158,000 paid during fiscal year 1993.

The fleet account needs the fiscal year ending balance for cash flow purposes due to the timing of the loan payments, equipment purchases, and revenue collections.

The objectives of the audit of the fleet management program were to study and evaluate the internal controls over revenue and expenditures. We reviewed the funding, rate setting, billing, revenue, asset disposal, and the expenditure processes for equipment. We found adequate internal controls over revenue and expenditures. We also found that Field Services established rates using reasonable assumptions.

4. The Fleet Management Program paid cleanup costs unrelated to the fleet program.

The fleet management program incurred costs unrelated to the program. During fiscal year 1992, the fleet account improperly paid $223,400 for petroleum tank and other cleanup costs. Minn. Stat. Section 84.0856 states that DNR may use fleet management appropriations only for certain costs included in the billings. Authorized billing costs include acquisition, licensing, insurance, maintenance, repair, and other direct costs. The cleanup costs were not direct costs of the program. DNR used the fleet account as a source of funding until it received reimbursement from the Petroleum Tank Cleanup Fund. The fleet account received partial payment from the fund in fiscal year 1993.

Recommendation

- *DNR should use fleet management revenue to pay for the direct costs of the fleet management program only.*

Chapter 5. State Parks - Minimum Operating Standards System

Chapter Conclusions

We believe the parks division has substantially met its original objectives of establishing a more equitable budget allocation system. The division used the system to allocate staff resources, costing $6 million, to the state parks in fiscal year 1992.

The Parks and Recreation Division manages the operation and development of 200,000 acres that comprise 66 state parks, and 17 waysides. Staff maintain and operate the park system's campgrounds, trails, picnic areas, interpretative centers, and all physical developments. The division incurred expenditures totaling over $19 million in fiscal year 1992 to operate the parks. The allocation of a portion of the appropriation to the individual state parks and the related cost system is called the Minimum Operating Standards System.

In the early 1980's the division recognized the need for greater equity and consistency in allocating resources to the parks. Also, there was concern that park managers had been operating under widely varied interpretations of division managements' operations expectations. The division formed a committee to develop a system to address these concerns. It researched other park systems and eventually established a basic framework which incorporated many features from the Canadian Province of Ontario.

As a first step, the committee identified the necessary tasks of state parks. The frequency of tasks ranged from daily requirements to annual procedures. Park worker comments, along with time and motion studies, were used to assign a completion time allowance for each task. Then, based on individual parks' facilities, required hours were budgeted for each of the parks. For instance, if the allowance for daily campground maintenance duties was five minutes per site and a certain park had 48 campsites, then that park was allowed a four hour daily task budget.

The necessary tasks were broken down further into operating periods throughout the year. This expanded information provided labor costs for maintaining various levels of service for different periods.

Each year the State Park Operational Funding Decision Matrix is developed. The matrix allocates funding to the parks based upon the level of service provided at the park. In fiscal year 1992 about $6 million was allocated to the various parks for staff salaries. (See Table 5-1 for a reproduction of the fiscal year 1992 matrix and Table 5-2 for lists by group of all parks.)

TABLE 5-1

State Park Operational Funding Decision Matrix
Fiscal Year 1992

		FULL FUNDING	1	2	3	4	5	6	7
			* Reduced Public Service Late Fall & Early Spring **	*No Lifegrds * No Interp. Ctr. Hosts * Reduced Winter Services * No Special Events **	* Limited Primitive Camping Sept – May **	* Limited Day Use Facilities Sept – May **	* Limited Primitive Camping Available Year–around (up to 20%) **	* Limited Day Use Facilities Available Year–around (up to 20%) **	*No Facility Maintenance Services *No Resource Maintenance Services **
SUPERVISOR 4 and 5	14 PARKS	$4,462,107	#5 ($108,345) ($208,479)	#10 ($338,198) ($917,349)	#24 ($408,658) ($2,748,063)	#27 ($926,426) ($4,548,773)	#29 ($1,122,226) ($6,343,244)	#30 ($1,124,352) ($7,467,596)	#35 ($433,902) ($8,227,424)
SUPERVISOR 3	20 PARKS	$2,326,917	#4 ($46,401) ($100,134)	#9 ($229,687) ($579,151)	#14 ($243,741) ($1,317,631)	#23 ($247,038) ($2,339,405)	#26 ($684,148) ($3,622,347)	#28 ($872,246) ($5,221,019)	#34 ($203,665) ($7,7[illegible],522)
SUPERVISOR 2	10 PARKS	$648,823	#3 ($10,782) ($53,733)	#8 ($62,797) ($349,464)	#13 ($73,134) ($1,073,890)	#19 ($61,690) ($1,678,323)	#22 ($199,772) ($2,092,366)	#25 ($190,135) ($2,938,199)	#33 ($50,513) ($7,589,868)
SUPERVISOR 1	14 PARKS	$670,349	#2 ($27,293) ($42,951)	#7 ($72,103) ($286,667)	#12 ($70,270) ($1,000,756)	#16 ($57,794) ($1,385,559)	#18 ($197,710) ($1,616,634)	#21 ($187,462) ($1,892,595)	#32 ($57,718) ($7,539,355)
TECHNICIAN	5 PARKS	$119,229	#1 ($15,658)	#6 ($6,085) ($214,564)	#11 ($13,137) ($930,487)	#15 ($10,133) ($1,327,764)	#17 ($33,365) ($1,418,924)	#20 ($26,809) ($1,705,133)	#31 ($14,041) ($7,481,637)

Source: DNR Parks Division

Table 5-2
Department of Natural Resources
Minnesota State Park Groups

Group A	Group B	Group C	Group D	Group E
Fort Snelling	Afton	Banning	Beaver Creek Valley	Big Stone Lake
Gooseberry Falls	Bear Head Lake	Buffalo River	Charles A. Lindbergh	Carley
Itasca	Blue Mounds	Crow Wing	Glacial Lakes	Geo. H. Crosby Manitou
Saint Croix	Camden	Fort Ridgely	Hayes Lake	Monson Lake
Sibley	Cascade River	Frontenac	Judge C.R. Magney	Schoolcraft
Whitewater	Father Hennepin	Hill Annex Mine	Kilen Woods	
William O'Brien	Flandrau	Lac Qui Parle	Lake Louise	
Interstate	Forestville	Nerstrand-Big Woods	Lake Maria	
Jay Cooke	Lake Bronson	Rice Lake	Old Mill	
Lake Bemidji	Maplewood	Sakatah Lake	Old Mill	
Lake Carlos	McCarthy Beach		O.L. Kipp	
Lake Shetek	Mille Lacs Kathio		Split Rock Creek	
Soudan Underground Mine	Minneopa		Upper Sioux Agency	
Wild River	Minnesota Valley Trail		Zippel Bay	
	Myre-Big Island			
	Savanna Portage			
	Scenic			
	Split Rock Lighthouse			
	Temperance River			
	Tettegouche			

Source: Park Operations Unit.

Table 5-3 shows expenditures by function for fiscal year 1992.

Table 5-3
Park and Recreation Division
Summary of Expenditures for Fiscal Year 1992

Park Units:	
Payroll-Park Managers and Assistants	$ 4,226,000
-Non-Mgmt. (Funded through Matrix)	6,076,000
Other Operating Costs	3,477,308
	$13,779,308
Regional Level-Supervisors and Operations	$ 1,619,700
Statewide Expenses:	
Central Office - Payroll	$ 1,125,600
Accelerated Repair and Maintenance in Parks	370,000
WRA Park Development	425,839
Other Costs (1)	1,874,400
	3,795,839
	$19,194,847

(1) Other costs include unemployment and worker's compensation.

Source: Park and Recreation Division Accounting Staff Reports; Statewide Accounting Managers Financial Report September 5, 1992.

Presently, the division is reengineering the matrix and its components. This project has reassessed hours required for tasks. It also revised park classifications to provide better groupings of parks based on size and services.

We believe the park division has substantially met its original objectives for the Minimum Operating Standards System. An equitable funding process has been established.

STATE OF
MINNESOTA
DEPARTMENT OF NATURAL RESOURCES
500 LAFAYETTE ROAD, ST. PAUL, MINNESOTA 55155-4037

OFFICE OF THE
COMMISSIONER

DNR INFORMATION
(612) 296-6157

December 10, 1993

Mr. James Nobles, Legislative Auditor
Office of the Legislature Auditor
1st Floor, Centennial Office Bldg.
658 Cedar Street
St. Paul, Minnesota 55155

Dear Mr. Nobles:

The purpose of this letter is to respond to the audit report of the Department of Natural Resources for the year ending June 30, 1992.

We want to thank you and your staff for your input and recommendations. However, in several areas we disagree with the findings and recommendations of the audit. We want to emphasize to those that read this audit and our response, that the issues involved are complex. Information taken out of context could be misleading.

TREE NURSERY PROGRAM

RECOMMENDATION:

The Forestry Division should assign appropriate financial expertise to the nursery program.

The Forestry Central Office business manager and the nursery supervisor have been assigned responsibility to establish an improved financial structure. A team of nursery and central office personnel have developed and are implementing a business and marketing plan that incorporates cost containment strategies, revenue forecasts, and market-based pricing strategies.

RECOMMENDATION:

The nursery should improve its costs accounting ability. The cost accounting system should help determine the selling price of the seedlings.

Nursery personnel are evaluating nursery cost accounting systems currently in use in other states. Adopting an effective existing system or developing a new system will improve the nursery's cost accounting capability. One objective of the system will be to track the costs of production to appropriately price the different species and types of seedlings.

RECOMMENDATION:
The Forestry Division should not advance funds to the nursery without the proper authority.

The measures taken to improve the financial structure of the nursery operations should preclude the need for future advances.

RECOMMENDATION:
Someone independent of the seed cone operation should reconcile the seed cone imprest cash account.

The Forestry Central Office business manager has been assigned to reconcile the seed cone account each January/February.

ALLOCATION OF FORESTRY COSTS TO TRUST FUNDS

RECOMMENDATION:
The Forestry Division should develop accurate data and valid assumptions for use in the formula which distributes costs to the trust funds.

Trust Fund Acreage:
The audit points out the difficulty in determining the amount of land within state forests. In spite of these difficulties Forestry has implemented a new computerized reporting process which was used to determine trust land acreage in F.Y. 1993, and all subsequent cost certifications.

Planting Costs:
The audit states that the total cost of tree planting stock was allocated to the trust funds. However the audit should have also stated that the total costs of site preparation and planting on trust fund lands were allocated solely to non-trust fund lands; accordingly the trust fund did not pay the cost of land preparation prior to tree planting on trust fund lands. These costs substantially offset each other. This allocation method was used only in F.Y. 1992 due to fund consolidation legislation. Since July 1, 1992 the DNR Cost Coding system has been used to more accurately charge actual costs to the appropriate funding source.

Allocation of Administrative Costs:
Forestry division personnel discovered this problem and modified the allocation process in January 1993. The process was incorporated into the F.Y. 1993 cost certification (Forestry staff actually brought this problem to the attention of the audit staff and the corrective action that had been accomplished.)

Revenue Collections:

The Forestry division will net out costs for forest fire fighting reimbursements in future allocations.

Return on Investment:

Your report indicates some issues regarding return on investments on state trust fund lands. We have some concerns on your conclusions and your simplistic approach to this analysis.

The real issue is: are we managing and investing in these forest lands to maximize long term returns to the trust fund? We are confident the answer is yes. Any well-founded answer to that question would require a far more sophisticated analysis than this audit provides.

The audit points out that costs exceed revenues except for the past couple of years. We view these "costs" as an investment in future forest growth and production that will pay substantial returns in the future. The Forest Management Act of 1982 recognized the value of this investment approach by removing a $500,000 limitation on costs, and allowing expanded recovery of costs incurred on trust fund lands. The high level of investment during this period was to compensate for the lack of development in prior decades. In contrast to a farmer who plants a crop in the spring and harvests the crop in the next fall, our crop may not be harvested for 60-80 years.

The DNR employs multiple use, sustained yield management principals on department administered lands. These lands pay valuable, indirect dividends for recreation, water quality protection and wildlife habitat, etc. These were not quantified in the audit.

The analysis does not take into account the mineral royalties and other income on trust fund lands. For example, in F.Y. 1992 mineral royalties amounted to $4,645,000. To imply that the return on the value of the trust lands is one-tenth of one percent is ludicrous.

FLEET MANAGEMENT

RECOMMENDATION:

DNR should use fleet management revenue to pay for the direct costs of the fleet management program only.

Overall Program:

The audit concludes that the DNR has adequate controls over revenues and expenditures including billing, revenue, asset disposal and expenditures for equipment. In addition, the audit states that these rates are set using reasonable assumptions.

Petroleum Cleanup Costs:

We disagree with the audit's assumption that petroleum tank clean up costs are not a direct cost of a fleet program. Simply put, without fleet vehicles there would be no tanks to clean up.

However, in the case cited it is misleading to say that the clean up costs were paid from the Fleet management account. These costs will be completely reimbursed from the Petroleum Tank Clean up Fund so there will be no net cost to the Fleet Management Account. It is more accurate to say that the Fleet Account advanced the funding for the clean up work mandated by law. The real problem lies in the long delay in reimbursement.

Yours truly,

by Ron Nargang

Rodney W. Sando
Commissioner