

**DEPARTMENT OF NATURAL RESOURCES**  
**PROGRAMS SELECTED FOR FISCAL YEAR 1993**  
**STATEWIDE AUDIT**

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**MARCH 1994**

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Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota

**94-06**



# DEPARTMENT OF NATURAL RESOURCES

## PROGRAMS SELECTED FOR FISCAL YEAR 1993 STATEWIDE AUDIT

Public Release Date: March 9, 1994

No. 94-06

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### OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Permanent School Fund timber sales, mineral receipts, and land sales: Sport Fish Restoration Program payroll and expenditures.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

### CONCLUSIONS:

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

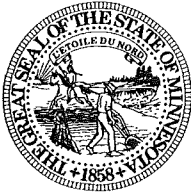
- DNR does not effectively ensure that all Fish Restoration Program expenditures are submitted for federal reimbursement.

We found no departures from finance-related legal provisions.

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

FINANCIAL AUDIT DIVISION





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Phil Riveness, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Rodney Sando, Commissioner  
Department of Natural Resources

## **Audit Scope**

We have audited selected programs of the Department of Natural Resources as part of our Statewide Audit of the State of Minnesota's fiscal year 1993 financial statements and Single Audit federal programs. 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 outlined below and as further discussed in the Introduction.

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 selected financial activities of the department are free of material misstatements. In performing our audit of the selected programs, we considered the internal control structure in order to plan our audit, and we performed tests of the department's compliance with certain material provisions of laws, regulations, contracts and grants. Our objective was to provide an opinion on the internal control structure and on overall compliance with finance-related legal provisions.

We emphasize that this has not been a complete financial and compliance audit of all programs within the Department of Natural Resources. The work conducted in the department is part of our Statewide and federal compliance audit (Single Audit) Audit. The Single Audit coverage satisfies the federal government's financial and compliance audit requirements for all federal programs administered by the department during fiscal year 1993.

For purposes of this report, we have classified the significant internal control structure policies and procedures into the following categories:

- Permanent School Fund timber sales
- Permanent School Fund mineral receipts
- Permanent School Fund land sales
- Sport Fish Restoration Program expenditures
- Sport Fish Restoration Program payroll

For these internal control structure categories, 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. We tested and evaluated the design and operating effectiveness of the internal control structure as of June 1993, and other procedures we considered necessary. We believe that our examination provides a reasonable basis for our opinion.

## **Management Responsibilities**

Management of the Department of Natural Resources is responsible for establishing and maintaining the 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.

## **Conclusions**

Our audit disclosed the conditions discussed in finding 1 involving the internal control structure of the Department of Natural Resources. We consider this condition to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or

Senator Phil Riveness, Chair  
Members of the Legislative Audit Commission  
Rodney Sando, Commissioner  
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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. However, we believe the reportable condition described above is not a material weakness.

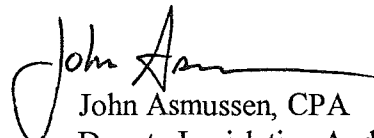
We also noted other matters involving the internal control structure and its operation that we reported to the management of the Department of Natural Resources at the exit conference held on February 8, 1994.

The results of tests indicate 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 March 9, 1994.

We thank the Department of Natural Resources staff for their cooperation during this audit.

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

End of Fieldwork: December 3, 1993

Report Signed On: March 3, 1994





## Department of Natural Resources

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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
Kari Irber, CPA	Auditor-in-Charge
Susan Rumpca, CPA	Staff Auditor
Tanya Morgan	Intern

### Exit Conference

The findings and recommendations in this report were discussed with the following officials of the Department of Natural Resources at the exit conference held on February 8, 1994:

Gene Gere	Assistant Commissioner, Administration
John Heintz	Administrator, Financial Management Bureau
John Bouthilet	Supervisor, Financial Management Bureau
Lori Christenson	Business Manager, Fish and Wildlife Division
Rose Palomo	Federal Aid, Fish and Wildlife Division
Laura Peterson	Accounting Officer, Fish and Wildlife Division



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## Introduction

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The Department of Natural Resources consists of the central office and six regional offices. The department has established eleven programs within the central office to achieve its goals. These include: mineral resources, water resources, forest management, trails and waterways management, parks and recreation, fish and wildlife management, enforcement, field operations support, regional operations support, special services programs, and administrative services. We reviewed the Permanent School fund receipts for land sales, mineral rent and royalty receipts, and timber sales receipts. In addition, we reviewed the portion of the expenditures related to the Sport Fish Restoration Program which is administered by the Fish and Wildlife Division. Rodney W. Sando serves as the commissioner.

The Permanent School Fund receives the proceeds from trust fund lands deeded to the state from the Federal government. The trust lands include school lands, internal improvement lands, and swamp trust lands. DNR collects rent and royalty fees for minerals mined on trust fund lands. The total rent and royalty fees received in fiscal year 1993 was \$820,510. The Permanent School Fund received about \$3,355,000 from timber cut from trust fund lands. DNR also receives money from the sale of trust fund land. In fiscal year 1993 the majority of the sales was lake shore. The total received was about \$1,657,000.

The federal government apportioned Minnesota \$ 7,111,725 in fiscal year 1993 for the Sport Fish Restoration Program. The funds can be used on such projects as fish habitat improvement, research on fishery problems, surveys and inventories of fish habitat improvements, provision for public use of fishery resources and lake and stream rehabilitation. The U.S. Department of Interior reimburses the state for up to 75 percent of these expenditures. Expenditures included payroll, supplies, administrative costs, fleet costs, pier development, indirect costs, and land acquisitions.

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## Current Finding and Recommendation

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**1. DNR central office does not effectively ensure that all Fish Restoration Program (CFDA 15.605) expenditures are submitted for federal reimbursement.**

DNR needs to improve monitoring controls over the reimbursement procedures for the Fish Restoration Program (CFDA 15.605). The objectives of the program are to restore, conserve, and enhance sport fish populations and to provide for public use and enjoyment of these fisheries' resources. The U.S. Fish and Wildlife Service makes program and project grants to state fish and game agencies. Funds are apportioned through a statutory formula based on the number of fishing license holders and the total lake and water area in the state.

DNR does not effectively ensure that all allowable expenditures are submitted for federal reimbursement. We found one instance of an entire month of nonsalary expenditures for one project (about \$12,400) never submitted for reimbursement. DNR reconciles expenditures to federal drawdowns on a project by project basis. However, DNR does not reconcile expenditures to drawdowns in total. As a result, expenditures may not be submitted for reimbursement. DNR could also erroneously submit expenditures twice for reimbursement. DNR corrected this error and submitted the expenditures for reimbursement in fiscal year 1994.

*Recommendation*

- *DNR central office should reconcile total expenditures to total federal drawdowns annually.*



STATE OF  
MINNESOTA  
DEPARTMENT OF NATURAL RESOURCES

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OFFICE OF THE  
COMMISSIONER

DNR INFORMATION  
(612) 296-6157

February 22, 1994

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

Dear Mr. Nobles:

Thank you for the opportunity to respond in writing to your findings regarding DNR from the Single Audit.

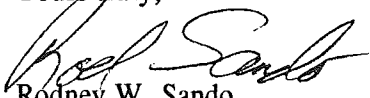
The audit found one instance where one month's worth of nonsalary expenditures (about \$12,400) were never submitted for reimbursement. *The audit report did not mention that we earned all of the available federal apportionment for the Fish Restoration Program for F.Y. 1993, a total of over \$8 million.*

We agree with your overall recommendation that the DNR should reconcile total expenditures to the total federal drawdowns on an annual basis. While the current practice is to reconcile the apportionment total on a federal fiscal year basis, we understand that this has presented some difficulties in our ability to determine information on a state fiscal year basis. An annual reconciliation would eliminate this concern. The Fish and Wildlife Division's business manager, Lori Christenson, will be responsible for ensuring that this reconciliation occurs.

While we concur with your recommendation, we need to provide some additional information regarding our federal aid reimbursement process.

1. The DNR has captured the total amount allowable for reimbursement in federal fiscal year 1992. In fact, though we are allowed two years to earn a given federal aid apportionment, the DNR has earned the maximum amount allowable within a one-year time period for the past several years. When the DNR did submit the expenses noted in the audit, we did not receive any reimbursement because we had already earned the maximum amount allowable in that project. We have not reverted any funds in this program since 1978.
2. It would be difficult to submit the same expenditures twice for reimbursement because the federal process calls for both a final fiscal report and a final program report where the program coordinator is responsible for reconciling the total amount billed and the total amount of work completed. A duplication of expenses would be caught during this process. To prevent this type of occurrence, we will set up a monitoring system for invoicing that will track the expenses and billings by project by the month.

Yours truly,

  
Rodney W. Sando  
Commissioner

cc: Ronald Nargang  
Eugene Gere  
Roger Holmes  
John Heintz

John Bouthilet  
Chuck Niska  
Lori Christenson