

# Department of Natural Resources

## Financial Audit

For the Period From July 1, 1995, through March 31, 1997

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August 1997

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Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota

97-42

Centennial Office Building, Saint Paul, MN 55155 • 612/296-1727

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STATE OF MINNESOTA

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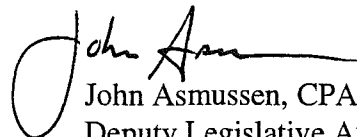
Mr. Rodney W. Sando, Commissioner  
Department of Natural Resources

We have audited selected areas of the Department of Natural Resources for the period July 1, 1995, through March 31, 1997, as further explained in Chapter 1. Our audit scope included revenues and payroll. The following summary highlights the audit objectives and conclusions. We discuss these issues more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the Department of Natural Resources complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of the Department of Natural Resources is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the 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 August 22, 1997.

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

End of Fieldwork: June 20, 1997

Report Signed On: August 15, 1997



# SUMMARY

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## Department of Natural Resources

### Financial Audit

For the Period from July 1, 1995, through March 31, 1997

Public Release Date: August 22, 1997

No. 97-42

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### Background

The Department of Natural Resources (DNR) is responsible for managing public waters, lands, parks, forests, and minerals, as well as ensuring compliance with a broad range of regulations that affect natural resources. The department consists of seven divisions, departmental field operations, and support services. DNR operates six regions throughout the state. Each region has supervisors representing the department's various divisions, as well as a regional administrator who provides overall coordination and support for the region. Mr. Rodney W. Sando is the commissioner of the department.

Our audit scope focused on the selected departmental revenues and payroll expenditures for the 21-month period from July 1, 1995, through March 31, 1997. The department is funded by legislative appropriations financed in part by licenses, registrations and other fees, and sales of timber and minerals. Approximately half of the department's expenditures during the audit period were payroll and payroll related charges.

### Conclusions

The Department of Natural Resources designed and implemented internal controls to provide reasonable assurance that license center receipts, timber sales, and mineral rents and royalty receipts were complete, adequately safeguarded, and accurately reported in the state's accounting records. The department also adequately safeguarded and accurately recorded its licenses and registration decal inventories.

The Department of Natural Resources designed and implemented internal controls over the payroll process that provided reasonable assurance that payroll expenditures are properly authorized and accurately reported in the accounting records. The department's payroll expenditures complied with applicable statutory provisions and related bargaining agreements. In addition, DNR consistently applied payroll procedures to all divisions, regions, and operational support staff.



## 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
Jeanine Leifeld, CPA	Audit Manager
Michael Hassing	Audit Director
Marina Mirman	Auditor
Pat Ryan	Auditor
Connie Stein	Auditor
Rick Weinmeyer	Auditor

We discussed the findings and recommendations with the following staff of the Department of Natural Resources at an exit conference held on August 6, 1997:

Eugene Gere	Assistant Commissioner
Mary O'Neill	Director, Human Resources Bureau
Pat Burt	Human Resources Bureau
Peggy Adelmann	Director, Financial Management Bureau
John Bouthilet	Financial Management Bureau
Jerry Hampel	Financial Management Bureau





# Department of Natural Resources

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## Chapter 1. Background Information

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The Department of Natural Resources (DNR) is responsible for managing public waters, lands, parks, forests, and minerals, as well as ensuring compliance with a broad range of regulations that affect natural resources. The department consists of seven divisions (Waters, Forestry, Parks & Recreation, Enforcement, Minerals, Fish & Wildlife, and Trails & Waterways), departmental field operations, and support services. DNR operates six regions throughout the state. Each region has supervisors representing the department's various divisions, as well as a regional administrator who provides overall coordination and support for the region. Mr. Rodney W. Sando is the commissioner of the department.

Our audit scope focused on the selected departmental revenues and payroll expenditures for the 21-month period from July 1, 1995, through March 31, 1997. DNR is funded by legislative appropriations, financed in part by licenses, registrations and other fees, and sales of timber and minerals. During fiscal year 1996, DNR collected about \$110.8 million. The department spent about \$209.6 million during the same period. Approximately half of the department's expenditures during the audit period were payroll and payroll related charges. The department's financial activity is recorded on the state's accounting and procurement system (MAPS).

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## Chapter 2. Revenues

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### *Chapter Conclusions*

*The Department of Natural Resources designed and implemented internal controls to provide reasonable assurance that license center receipts, timber sales, and mineral rents and royalty receipts were complete, adequately safeguarded, and accurately reported in the state's accounting records. The department also adequately safeguarded and accurately recorded its licenses and registration decal inventories.*

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The Department of Natural Resources collected about \$110.8 million in revenues during fiscal year 1996. The department funds approximately half of its annual operations through its revenues and grants. Table 2-1 provides a summary of the department's revenues for the fiscal year ended June 30, 1996.

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**Table 2-1**  
**DNR Revenues**  
**Fiscal Year Ended June 30, 1996**

Audited Revenues:	
License Bureau	\$45,534,516
Timber Sales	8,485,061
Iron Ore Rents and Royalties	7,095,377
Special Advance Mineral Royalties	431,967
Revenues Excluded from this Audit:	
Parks and Recreation	9,203,107
Federal Game and Fish Grants	12,488,703
Other Federal Grants	5,102,294
DNR Internal Billings	5,442,048
Other Reimbursements	<u>1,756,716</u>
Total DNR Revenues for Fiscal Year 1996	<u>\$110,783,140</u>

Source: Revenue reported on the Minnesota Accounting and Procurement System (MAPS) for fiscal year 1996.

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### **Audit Objectives and Methodology**

We focused our review of selected DNR revenues on the following objectives:

- Did the DNR design and implement internal controls to provide reasonable assurance that the appropriate amount of license and registration revenue was collected, adequately safeguarded, and properly reported in the accounting records?
- Did revenue collections comply with applicable legal and policy provisions?
- Did the DNR properly account for its license, decal, and registration inventories?

## Department of Natural Resources

To address these objectives, we interviewed appropriate division personnel to gain an understanding of the process of collecting and depositing receipts. In addition, we selected a random sample of receipts and verified whether the staff properly collected, adequately safeguarded, and properly reported the appropriate revenues or fees.

### License Bureau

The Department of Natural Resources collects fees for registration and titling of recreation vehicles, game and fishing licenses, and other fees. The Legislature establishes the individual fees in state statute. The DNR license bureau is accountable for all of these fees. Individuals may purchase licenses and permits directly at the license bureau, or through an authorized agent of the department. Throughout the state, county auditors and deputy registrars collect these fees from the authorized agents and submit them to the DNR license bureau. DNR deposits these receipts into the appropriate funds as dedicated revenue.

Table 2-2 summarizes revenue collected by the license bureau by source for fiscal year 1996.

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**Table 2-2**  
**License Bureau Revenues by Source**  
**Fiscal Year 1996**

Fishing License	\$15,915,318
Hunting License	14,765,925
Watercraft Registration	4,009,528
Sportsman License	3,327,370
Snowmobile Registration	2,944,458
Stamps : Waterfowl, Trout, Pheasant	1,532,506
Wildlife Acquisition Surcharge	1,166,136
Other Sources	<u>1,873,275</u>
Total Revenue	<u>\$45,534,516</u>

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Source: Revenue reported on the Minnesota Accounting and Procurement System (MAPS) for fiscal year 1996.

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The DNR license bureau receives receipts through the mail or from direct sales to customers. The license bureau consists of three areas: registration and titling, game and fishing, and counter sales. Each area enters its own receipts on DNR's internal licensing, registration, and inventory computer system.

We verified that DNR properly designed and implemented internal controls within the license bureau to provide reasonable assurance that it properly collected, adequately safeguarded, and properly reported the appropriate license and registration fees. We also found that DNR reconciled licenses and permits issued with receipts at the end of each season.

### Timber Sales

The Division of Forestry governs the timber sales program in accordance with Minn. Stat. Chapter 90. The Forestry Division has developed specific policies and procedures related to timber sales. Area offices conduct timber sales in accordance with these regulations and internal procedures. Total timber sales revenues amounted to \$8,485,061 in fiscal year 1996.

## Department of Natural Resources

DNR has numerous area offices throughout the state. DNR area field personnel appraise the value of timber designated for sale on specific tracts of land. Area offices conduct various types of timber sales based upon the appraised value of the tracts and the number of estimated volume of timber to be harvested. The area offices conduct formal auction sales for tracts appraised with a volume of 6,000 cords or more. Area offices collect an advance payment of 25 percent of the appraised value from auction sales. The central office bills and collects the remaining amount due on auction sales.

We determined that DNR properly designed and implemented internal controls within the Forestry Division to provide reasonable assurance that it properly collected, adequately safeguarded, and properly reported the appropriate revenue from timber sales during fiscal year 1996.

### Mineral Rents and Royalties

The Division of Minerals manages the mineral assets of the state to ensure that all stages of mining generate environmentally acceptable outcomes and equitable income for the state and its citizens. The assets managed include:

- mineral rights on 12 million acres of state-owned trust and tax-forfeited land (including 18 percent of the Mesabi Iron Range mineral rights); and
- surface rights and mineral rights on 8 million acres of state land for peat, industrial minerals, and construction materials.

The Division of Minerals is the trust agent for mineral rights of the Permanent School Fund lands, Permanent University Fund lands, tax-forfeited lands, and other state lands. It has the fiduciary responsibility to provide equitable rental and royalty income to the state trust funds through leasing of lands for exploration and mining. Table 2-3 identifies the fiscal year 1996 revenue collected by the Minerals Division.

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**Table 2-3**  
**Division of Minerals Revenues**  
**Fiscal Year 1996**

Iron Ore Rents and Royalties	\$7,095,377
Special Advance Royalties	431,967
Non-Ferrous Mineral Royalties	72,245
Peat Royalties	49,612
Other Revenue	<u>359,004</u>
Total Revenue	<u>\$8,008,205</u>

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Source: Revenue reported on the Minnesota Accounting and Procurement System (MAPS) for fiscal year 1996.

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We found that DNR properly designed and implemented internal controls within the Minerals Division to provide reasonable assurance that it properly collected, adequately safeguarded, and properly reported the appropriate mineral revenues during fiscal year 1996.

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## Chapter 3. Payroll

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### *Chapter Conclusions*

*The Department of Natural Resources designed and implemented internal controls over the payroll process that provided reasonable assurance that payroll expenditures were properly authorized and accurately reported in the accounting records. The department's payroll expenditures complied with applicable statutory provisions and related bargaining agreements.*

*The department has instituted a complex accounting and reporting system for allocating payroll hours to individual projects and activities. DNR uses various codes to identify individual projects, funding sources, and tasks. We found that some divisions used most of these codes to provide a detailed allocation of payroll costs. However, other divisions cited the complexity and administrative time necessary to account for and monitor that level of detail, and, as a result, did not use the activity codes.*

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The Department of Natural Resources (DNR) has approximately 2,500 employees located throughout the state within its six operating regions. Each regional office is responsible for the accounting and payroll support for the seven divisions of the department within that region. Regional offices report to the central office in St. Paul.

The department's total payroll expenditures for fiscal year 1996 was \$106 million. Table 3-1 shows the breakdown of payroll by division:

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**Table 3-1**  
**Payroll by Division**  
**Fiscal Year 1996**

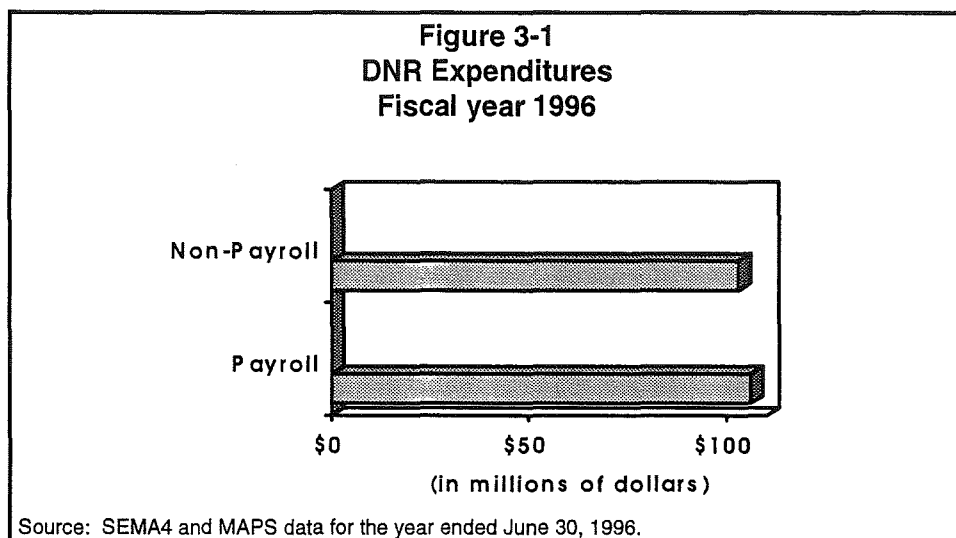
<u>Division:</u>	<u>Total Payroll</u>
Minerals	\$ 3,046,632
Waters	6,023,038
Forestry	21,202,818
Parks	14,794,911
Trails	4,601,279
Fish and Wildlife	26,226,715
Enforcement	11,849,056
Operations Support	18,475,705
Total	<u>\$106,220,152</u>

Source: Fiscal year 1996 SEMA4 and PPS system data.

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Figure 3-1 shows payroll and related expenditures as compared to DNR's non-payroll expenditures for fiscal year 1996. As can be seen in Figure 3-1, payroll expenditures constitute approximately half of the department's total annual expenditures.



Department of Natural Resources employees are members of several different bargaining units, including the following:

- American Federation of State, County, and Municipal Employees (AFSCME),
- Middle Management Association (MMA)
- Minnesota Association of Professional Employees (MAPE)
- Minnesota Conservation Officers Association
- Minnesota Government Engineers Council (MGEC)
- Unrepresented Employees (Commissioners Plan)
- Managers Plan

DNR also has Minnesota Conservation Core (MCC) employees. MCC employees are not covered under a bargaining agreement. Therefore, DNR is allowed to set pay rates and other work rules for those employees.

### Audit Objectives and Methodology

The primary objectives of our audit of DNR payroll expenditures were the following:

- Did DNR design and implement internal controls over the payroll process to provide reasonable assurance that payroll expenditures are properly authorized and accurately reported in the accounting records?

## Department of Natural Resources

- Did DNR payroll expenditures comply with applicable statutory provisions and related bargaining agreements?
- Did DNR consistently apply payroll procedures to all divisions, regions, and operational support staff?

To address these questions, we gained an understanding of the payroll process including overtime and compensatory time, work out of class, reviewed payroll and personnel documents, reviewed procedures for processing achievement awards. We interviewed representatives from all DNR divisions and several units. We tested payroll expenditures, including overtime and compensatory time, and achievement awards. We also evaluated and tested compliance with applicable statutory provisions and related bargaining agreements.

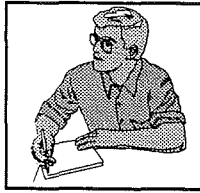
### Payroll Processing

Figure 3-2 shows the payroll process for a typical DNR employee. The DNR region offices generally serve as a clearing house for payroll processing for employees not located within the central office in St. Paul. For payroll processing, each DNR division operates independently and has individual sets of policies. Most internal budgeting and operating decisions are based on specific appropriations and requirements and restrictions placed on the appropriations.

The department has instituted a complex accounting and reporting system for allocating payroll hours to individual projects and activities. DNR uses various codes to identify individual projects, funding sources, and tasks. DNR administrators told us that, due to the level of reporting they are required to provide to special interest groups and the Legislature, it is important that they be able to identify time spent by employees in a variety of different ways. Figure 3-3 show the decisions a DNR employee may have to consider in completing a biweekly time report.

We found that some divisions used most of these codes to provide a detailed allocation of payroll costs. However, other divisions cited the complexity and administrative time necessary to account for and monitor that level of detail and do not utilize activity codes.

**Figure 3-2 DNR Payroll Process for Field Locations**



Field employee completes a timesheet.



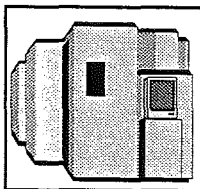
Area supervisor approves and signs the timesheet. The area supervisor then forwards the timesheet to the DNR region office.



During the payroll week, a DNR Region payroll clerk reviews all timesheets for obvious errors, such as no signatures, missing holiday, etc. and then enters payroll data (via mass time entry)- earning codes and associated hours - into SEMA4.



The following week, called the Labor Distribution week, the same regional payroll clerks enter the breakdown of earnings codes into activity codes and cost codes (project codes). They also correct coding errors such as an employee used a fund other than the default fund. The payroll clerks save and validate the information entered into the system.



The system automatically edits the mass time entry input in the Labor Distribution for number of hours and other edit checks.



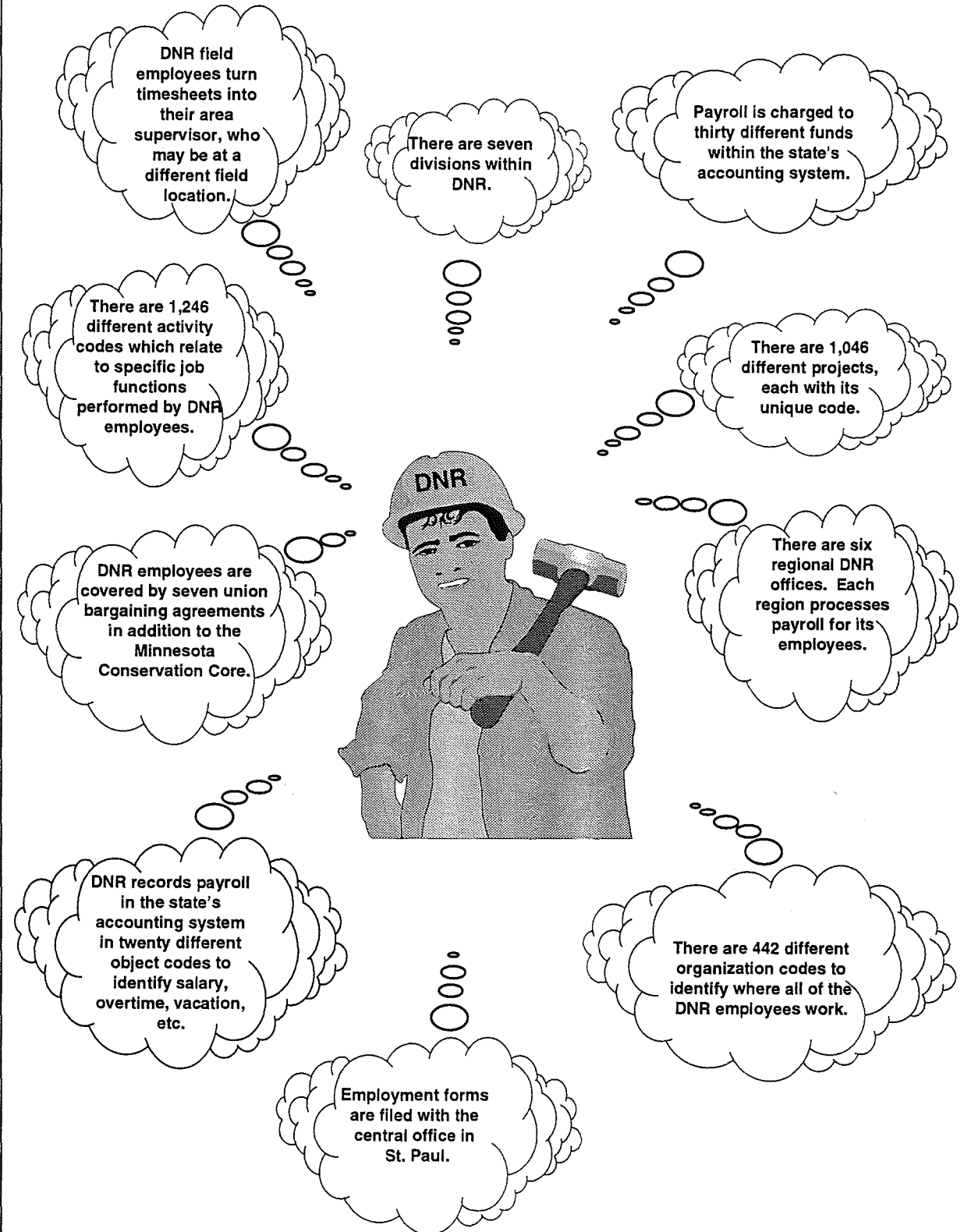
The financial management bureau generates a variety of payroll reports and distributes to the divisions. The division business managers use the reports to analyze payroll data and to monitor budgets. Division managers can forward reports to regions if needed.



Payroll checks are direct deposited or mailed to employees.



**Figure 3-3 DNR Payroll Coding  
Project/Activity/Funding Allocation Decisions**



Source: Auditor prepared from MAPS and SEMA4 coding data.

## Department of Natural Resources

### Other Pay

The department strictly adheres to the union rules outlined in the bargaining agreements for most employment decisions such as pay raises, achievement awards, assigning overtime, and compensatory time off. However, because of the diversity of the department's operations, the decisions on the level of achievement awards granted to employees, amount of overtime, and compensatory time assigned varies by division. Figures 3-4 and 3-5 compare achievement awards, overtime, and comptime granted to employees by each of the seven DNR divisions and support services for fiscal year 1996.

Figure 3-4 compares amount of achievement awards granted to employees by each of the seven Department of Natural Resources divisions and support services. The amount of achievement awards granted to different divisions and units is based on the number of eligible employees at each division and unit. Each division has a set of eligibility criteria for achievement awards. At the beginning of each fiscal year, the division communicates its criteria to employees. The human resources bureau developed a uniform policy governing the steps divisions have to complete to formally process achievement awards. Achievement awards may not exceed limits set in the bargaining agreements.

The divisions are not required to give out the maximum amount of awards. Since some of the divisions' budgets are limited, most of the awarding decisions are budget driven.

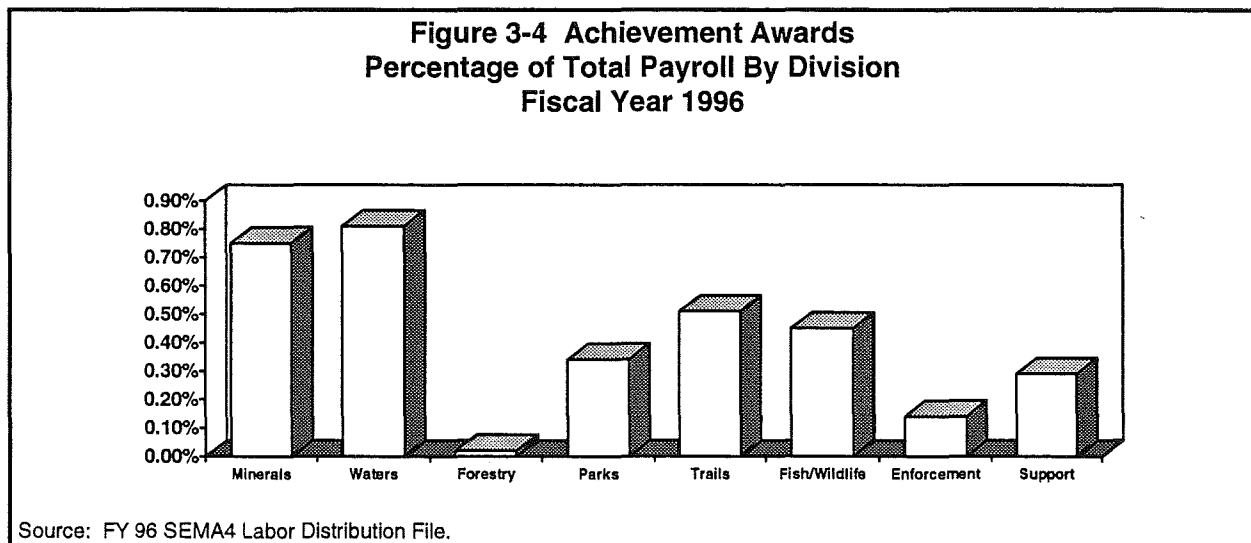
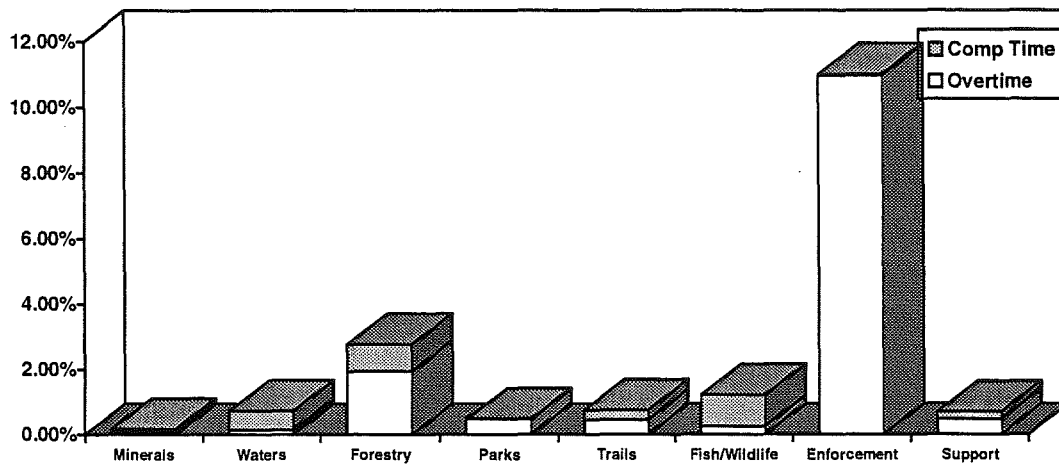


Figure 3-5 compares amount of overtime and compensatory time off granted to employees by each of the seven DNR divisions and support services. Each division administered overtime and compensatory time off based on the specific projects requirements and funds available. Divisions also manage overtime in compliance with union agreements. The amount of overtime varied by division. For example, the Division of Fish & Wildlife uses a large amount of compensatory time for the special projects related largely to the Fisheries and Wildlife units. The Division of Forestry used most of its compensatory time for forest fire fighting. The Division of Enforcement uses a high amount of overtime. Division representatives explained

## Department of Natural Resources

that they have a limited number of enforcement officers who, in addition to the regular duties, must perform various special assignments. Much of the overtime was generated during the hunting and fishing seasons. Officers are involved in sting operations and fire fighting related activities.

**Figure 3-5 Overtime and Comp Time Earned  
Percentage of Total Payroll By Division  
Fiscal Year 1996**



Source: FY96 SEMA4 Labor Distribution File.

We determined that the Department of Natural Resources designed and implemented internal controls over the payroll process that provided reasonable assurance that payroll expenditures are properly authorized and accurately reported in the accounting records. The department's payroll expenditures complied with applicable statutory provisions and related bargaining agreements. In addition, DNR consistently applied payroll procedures to all divisions, regions, and operational support staff.