



**OFFICE OF THE LEGISLATIVE AUDITOR**  
STATE OF MINNESOTA

**FINANCIAL AUDIT DIVISION REPORT**

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**Department of  
Natural Resources**

**Federal Compliance Audit**

**Year Ended June 30, 2015**

**March 24, 2016**

**Report 16-10**

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FINANCIAL AUDIT DIVISION  
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## Financial Audit Division

The Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division has a staff of about 30 auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

The Office of the Legislative Auditor (OLA) also has a Program Evaluation Division, which evaluates topics periodically selected by the Legislative Audit Commission.

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## Conclusion on Internal Controls

The Financial Audit Division bases its conclusion about an organization's internal controls on the number and nature of the control weaknesses we found in the audit. The three possible conclusions are as follows:

Conclusion	Characteristics
Adequate	The organization designed and implemented internal controls that effectively managed the risks related to its financial operations.
Generally Adequate	With some exceptions, the organization designed and implemented internal controls that effectively managed the risks related to its financial operations.
Not Adequate	The organization had significant weaknesses in the design and/or implementation of its internal controls and, as a result, the organization was unable to effectively manage the risks related to its financial operations.

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## OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

March 24, 2016

Representative Sondra Erickson, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Tom Landwehr, Commissioner  
Department of Natural Resources

This report presents the results of our audit of the programs in the Fish and Wildlife Cluster, which were major federal programs for the State of Minnesota for fiscal year 2015. We conducted this audit as part of our audit of the state's compliance with federal program requirements. This was not a comprehensive audit of the Department of Natural Resources.

We discussed the results of the audit with the department's staff on March 15, 2016. This audit was conducted by Tracy Gebhard, CPA (Audit Director); Kayla Borneman, CPA (Auditor-in-Charge) and assisted by auditors Joe Kuschke; Lori Leysen, CPA; Natalie Mehlhorn, Erick Olsen, and Shari Zhou.

We received the full cooperation of the department's staff while performing this audit.

Handwritten signature of James R. Nobles in black ink.

James R. Nobles  
Legislative Auditor

Handwritten signature of Cecile M. Ferkul in black ink.

Cecile M. Ferkul, CPA, CISA  
Deputy Legislative Auditor



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# Report Summary

## Conclusion

The Department of Natural Resources generally complied with and had controls to ensure compliance with certain provisions of laws, regulations, contracts, and grants applicable to major federal programs for fiscal year 2015. However, the department had some noncompliance, as noted in the finding presented in this report.

## Audit Finding

- The Department of Natural Resources did not have adequate controls to ensure its employees certified the accuracy of employee payroll time reporting. (Finding 1, page 5)

## Audit Scope

Our scope included programs in the Fish and Wildlife Cluster, which were major federal programs for the State of Minnesota for fiscal year 2015. The department had about \$30 million in program expenditures.

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## Department of Natural Resources

### Federal Program Overview

The Department of Natural Resources administered federal programs included in the Fish and Wildlife Cluster – the Sport Fish Restoration Program (CFDA 15.605) and the Wildlife Restoration and Basic Hunter Education Program (CFDA 15.611.)<sup>1</sup> We considered these programs to be major federal programs for the State of Minnesota, subject to audit under the federal Single Audit Act.<sup>2</sup> As shown in Table 1, the fiscal year 2015 federal expenditures for these programs totaled about \$30 million.<sup>3</sup>

**Table 1**  
**Department of Natural Resources**  
**Fish and Wildlife Cluster**  
**Fiscal Year 2015**

<u>Program</u>	<u>CFDA</u>	<u>Expenditures</u>
Sport Fish Restoration Program	15.605	\$12,713,604
Wildlife Restoration and Basic Hunter Education Program	15.611	<u>17,531,738</u>
Total Expenditures		<u>\$30,245,342</u>

Source: 2015 Schedule of Expenditures of Federal Awards, prepared by the Department of Management and Budget.

The objective of the Sport Fish Restoration Program is to restore, conserve, and enhance sport fish populations and to provide for public use and enjoyment of these fishery resources.

The objective of the Wildlife Restoration and Basic Hunter Education Program is to restore, conserve, and enhance wildlife populations, provide for public use and enjoyment of these resources, and to provide training to hunters and archers in skills, knowledge, and attitudes necessary to be responsible hunters or archers.

<sup>1</sup> The Catalog of Federal Domestic Assistance (CFDA) is a unique number assigned by the federal government to identify its programs.

<sup>2</sup> We defined a major federal program for the State of Minnesota in accordance with a formula prescribed by the federal Office of Management and Budget as a program or cluster of programs whose expenditures for fiscal year 2015 exceeded \$30 million.

<sup>3</sup> Federal grant award numbers for the Sport Fish Restoration Program: F12AF00009, F14AF00181, F15AF00166, F13AF00322, F15AF00162, F13AF00332, F14AF00028, F12AF01100, F14AF01220, F13AF00876, F13AF00543, F13AF00544, F13AF00585, F13AF00589, F13AF00594, F12AF00420, F14AF00467, and F14AF00596. Federal grant award numbers for the Wildlife Restoration and Basic Hunter Education Program: F12AF00116, F14AF00404, F13AF00377, F14AF00371, F13AF00378, F14AF00443, F13AF00483, F14AF00032, F14AF00368, and F14AF00369.

## Objective, Scope, and Methodology

The objective of our audit was to determine whether the Department of Natural Resources complied with federal program requirements in its administration of these federal programs for fiscal year 2015. This audit is part of our broader federal single audit objective to obtain reasonable assurance about whether the State of Minnesota complied with the types of compliance requirements that are applicable to each of its federal programs.<sup>4</sup> In addition to specific program requirements, we examined the department's general compliance requirements related to federal assistance, including its cash management practices.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States of America and with the U.S. Office of Management and Budget's *Circular A-133 Compliance Supplement*.

## Conclusion

The Department of Natural Resources generally complied with and had controls to ensure compliance with certain provisions of laws, regulations, contracts, and grants applicable to its major federal programs for fiscal year 2015. However, the department had some noncompliance, as noted in the following *Finding and Recommendation* section.

We will report this weakness and noncompliance to the federal government in the Minnesota Financial and Compliance Report on Federally Assisted Programs, prepared by the Department of Management and Budget. This report provides the federal government with information about the state's use of federal funds and its compliance with federal program requirements. The report includes the results of our audit work, conclusions on the state's internal controls over and compliance with federal programs, and findings about control and compliance weaknesses.

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<sup>4</sup> The State of Minnesota's single audit is an entity audit of the state that includes both the financial statements and the expenditures of federal awards by all state agencies. We issued an unqualified audit opinion, dated December 11, 2015, on the State of Minnesota's basic financial statements for the year ended June 30, 2015. In accordance with Government Auditing Standards, we also issued our report on our consideration of the State of Minnesota's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants. (Office of the Legislative Auditor's Financial Audit Division Report 16-05, *Internal Controls Over Statewide Financial Reporting*, issued February 11, 2016.)

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## Finding and Recommendation

**The Department of Natural Resources did not have adequate controls to ensure its employees certified the accuracy of employee payroll time reporting.**

### Finding 1

The department did not effectively use the state's automated time reporting system to ensure that payroll costs charged to the Sport Fish Restoration Program (CFDA 15.605) and the Wildlife Restoration and Basic Hunter Education Program (CFDA 15.611), totaling approximately \$17.6 million for fiscal year 2015, were for work related to the objectives of those programs. Federal requirements state:

*“Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation .... Personnel activity reports or equivalent documentation must meet the following standards .... They must be signed by the employee...”<sup>5</sup>*

The department used employee timesheets completed and approved through the state's automated time reporting system as equivalent to personnel activity reports to show how employees distributed their time among multiple activities, including federal programs. When used in accordance with state payroll policies, the state's automated time reporting system can provide good internal controls to ensure the integrity of employees' payroll information. The policy states that the best control is achieved *“when employees prepare their own timesheets.”<sup>6</sup>*

Of 2,444 employees' timesheets completed during four pay periods in fiscal year 2015, we found about 18 percent of the timesheets we tested were not completed by the employees themselves; instead, supervisors completed the employees' timesheets.<sup>7</sup> The prevalence of supervisors completing employees' timesheets fundamentally undermines the integrity of the automated time reporting system since employees are best able to identify the hours they worked each day.

The department also did not effectively use a report available each pay period that identifies each timesheet completed by a supervisor (rather than the employee). Federal policy requires the employee to sign the timesheet.<sup>8</sup> Since the department

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<sup>5</sup> Office of Management and Budget Circular A-87, Attachment B, Section 8, h, (4) and (5), (d).

<sup>6</sup> Department of Management and Budget Policy PAY0017 - Self Service Time Entry.

<sup>7</sup> In the state's automated time reporting system, an employee is required to indicate electronically, by checking a box, that their timesheet is complete. If a supervisor or other personnel modify the employees' timesheet, the system will show that someone other than the employee completed the timesheet.

<sup>8</sup> Office of Management and Budget Circular A-87, Attachment B, Section 8, h, (5), (d).

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did not follow up on each exception and verify with the employee the accuracy of the timesheet, it did not comply with federal requirements, and we could not conclude that the payroll costs were allowable to be charged to the federal grant. Department staff generated the report, but we saw no evidence that they had followed up on the exceptions noted with the employee. If the department had used the report effectively, it could have met the federal requirements for payroll costs charged to federal grants.

By not following federal policy for the use of the state's automated time reporting system, the department increased the risk that it charged the federal government for employee payroll costs not related to the federal program.

*Recommendation*

- *To comply with federal requirements, the department should strengthen its internal controls over payroll expenditures by using the state's automated time reporting system.*
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Minnesota Department of Natural Resources  
500 Lafayette Road Saint Paul, Minnesota 55155-4037  
Office of the Commissioner  
651-259-5555



March 18, 2016

Mr. James Nobles  
Legislative Auditor  
Centennial Office Building, Room 140  
658 Cedar Street  
St. Paul, Minnesota 55155-1603

RE: OLA Federal Compliance Audit for the Year Ending June 2015

Dear Auditor Nobles:

Thank you for the opportunity to review and respond to the Office of Legislative Auditor's (OLA) findings and recommendations resulting from the recent federal compliance audit. We appreciate the professional review conducted by the OLA audit. The DNR offers the following specific response regarding the audit finding and recommendation in the audit for the DNR:

**Audit Finding #1**

**The Department of Natural Resources did not have adequate controls to ensure its employees certified the accuracy of the employee payroll time reporting.**

***Audit Recommendation***

*To comply with federal requirements, the department should strengthen internal controls over payroll expenditures by using the state's automated time reporting system*

**DNR Response:** The DNR concurs with this finding. While the goal is to have every employee complete their timesheets, there are circumstances that arise where the supervisor needs to finalize the timesheet on behalf of the employee. The majority of these situations are when the supervisor needs to:

- Make corrections for typos that impact funding, total hours, or other miscoding errors; or
- Finalize the time sheet on behalf of the employee when the employee is absent or in the field without access to the system on the last day of the pay period.

In these circumstances, DNR follows state policy, which allows the supervisor to make appropriate changes and note the reason for the change in the comment field. We understand that this procedure does not meet the federal requirement for an employee to sign the final timesheet with the corrections made by the supervisor.

Many of the corrections made by supervisors could be avoided if the timesheet system would allow employees to validate their entries. The current system design restricts the validation process to be performed by the supervisor after the employee has completed their timesheet. DNR has requested this change to Minnesota Management and Budget, but it has not been an approved change.

DNR will continue to make every effort to ensure employees handle changes to their own timesheets. The DNR will explore options to obtain the employee's signature in instances that the supervisor made changes to the timesheet as well as continue to seek changes in the validation process.

Person Responsible: Barb Juelich

Date to be completed: December 31, 2016 or date of statewide system changes if applicable

Sincerely,



Tom Landwehr  
Commissioner