



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit

Board of Water and Soil Resources
Three Fiscal Years Ended June 30, 2000



MAY 11, 2001

01-23

Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's 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 also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately fifty 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.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year and one best practices review.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of Representatives and Senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

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Board of Water and Soil Resources

Members of the Board of Water and Soil Resources

Mr. Ronald Harnack, Executive Director
Board of Water and Soil Resources

We have audited the financial activities of the Board of Water and Soil Resources for the period July 1, 1997, through June 30, 2000. Our audit scope included easements, grants, payroll, and other administrative expenditures. The audit objectives and conclusions are highlighted 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 require that we design the audit to provide reasonable assurance that the Board of Water and Soil Resources complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the board is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

As required by Minn. Stat. Section 3.975, we have referred this report to the Office of the Attorney General for recovery of state funds. The Board of Water and Soil Resources paid per diem to an ineligible board member. The Attorney General may negotiate the propriety of individual claims.

This report is intended for the information of the Legislative Audit Commission and the management of the Board of Water and Soil Resources. This restriction is not intended to limit the distribution of this report, which was released as a public document on May 11, 2001.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: February 23, 2001

Report Signed On: May 7, 2001

Board of Water and Soil Resources

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Renee Redmer, LPA	Audit Manager
Sonya Johnson, CPA	Auditor-in-Charge
Ellen Sibley	Auditor
Jess Frenzel	Auditor

Exit Conference

We discussed the audit report conclusions with the following representatives of the Board of Water and Soil Resources at the exit conference held on May 1, 2001:

Doug Thomas	Assistant Director
Tammy McGlone	Administrative Services Director
Mary Miller	Accounting Coordinator

Board of Water and Soil Resources

Report Summary

Overall Conclusion:

The Board of Water and Soil Resources properly safeguarded assets and accurately recorded receipts and expenditures in the state's accounting and payroll systems. Except for the per diem issue noted below, the Board of Water and Soil Resources was in compliance with applicable finance-related legal provisions and policies.

Key Findings:

- The board did not adequately segregate duties over the recording of easements in the accounting system. One individual is responsible for requesting vendor numbers, recording easement payments in MAPS, and adjusting amounts in the internal easement database. (Finding 1, page 8)
- The board needs to improve controls over the cost-share grant to ensure an independent review of grant expenditures, that unencumbered grant funds are timely returned, develop a written policy for award calculations, and determine necessity of any adjustments to incorrectly calculated awards made during fiscal years 1998-2000. (Finding 2, page 11)
- The board did not submit reimbursement requests to organizations requesting federal funds in a timely manner. (Finding 3, page 14)
- The board inappropriately paid per diems totaling \$1,595 to an ineligible board member. (Finding 4, page 17)

Agency Background:

The Board of Water and Soil Resources operates pursuant to Minn. Stat. Section 103B. The board's primary purpose is to assist local units of government in managing water and soil resources. The board provides technical, administrative, and financial assistance to these local units of government.

Buddy

Financial Audit Reports address internal control weaknesses and noncompliance issues found during our audits of state departments and agencies. The scope of our audit work at the Board of Water and Soil Resources included payroll, travel, other administrative expenditures, easements, grants expenditures, and grants revenues for the period from July 1, 1997, through June 30, 2000. The board's response to our recommendations is included in this report.

Board of Water and Soil Resources

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Board of Water and Soil Resources

Chapter 1. Introduction

The Board of Water and Soil Resources (board) operates pursuant to Minn. Stat. Section 103B. The board's mission is to assist local units of government in managing water and soil resources. The board facilitates this mission by coordinating water and soil resource planning activities, developing information and education programs, facilitating communication and coordination, and providing forums for discussion. The board provides technical, administrative, and financial assistance to local units of government. The board currently has 70 staff located in St. Paul, Brainerd, Bemidji, Duluth, Fergus Falls, Marshall, Rochester, and New Ulm area offices.

The board consists of 17 members who are appointed by the Governor. Five board members include the commissioners of the Departments of Agriculture, Health, Natural Resources, and the Pollution Control Agency and the director of the University of Minnesota extension service. The board's current executive director is Ronald Harnack.

The board receives appropriations from the General, Building, Environment and Natural Resources Trust, and Minnesota Future Resources Funds to finance board operations. Table 1-1 provides a summary of the board's financial activity for the three fiscal years ended June 30, 2000.

Board of Water and Soil Resources

**Table 1-1
Sources and Uses of Funds
Fiscal Years Ended June 30, 1998, 1999 and 2000**

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Sources:			
State Appropriations	\$17,171,000	\$16,465,605	\$23,631,000 ⁽¹⁾
Less: Cancellations	<u>13,787</u>	<u>29,519</u>	<u>57,254</u>
Net Appropriations	\$17,157,213	\$16,436,086	23,573,746
Receipts	1,218,110	894,178	539,160
Transfers In	855,000	1,291,000	1,556,000
Balance Forward In	<u>860,556</u>	<u>2,776,558</u>	<u>1,063,997</u>
Total Sources	<u>\$20,090,879</u>	<u>\$21,397,822</u>	<u>\$26,732,903</u>
Uses:			
Grants	\$13,512,245	\$15,503,421	\$17,093,816
Payroll and Per diems	2,777,652	2,888,371	3,682,836
Travel	212,818	225,619	236,050
Other Expenditures	794,250	1,709,634	1,452,924
Transfer Out	17,356	6,780	122
Balance Forward Out	<u>2,776,558</u>	<u>1,063,997</u>	<u>4,267,155</u>
Total Uses	<u>\$20,090,879</u>	<u>\$21,397,822</u>	<u>\$26,732,903</u>

- (1) Fiscal year 2000 appropriations increased from fiscal year 1999 due to additional legislative appropriations, which included a one-time appropriation of \$2.65 million for eligible agricultural land easements, a \$1.2 million appropriation for easement and grant program administrative costs, and increases in the cost share grant and general services grant program appropriations of \$3.4 million.

Source: Minnesota Accounting and Procurement System (MAPS).

The board also receives appropriations for the purchase of real property for various easement programs. Appropriations are available for several years since these projects are generally long term in nature. Historically, the appropriations for these projects were mainly from the Building Fund. However, in fiscal years 1998 and 2000, the Legislature authorized appropriations from the General Fund for easement and other programs. Table 1-2 shows the activity related to easement and other projects for the fiscal years 1998, 1999, and 2000.

Board of Water and Soil Resources

Table 1-2
Summary of Financial Activity
Building and General Projects Funds
Years Ended June 30, 1998, 1999, and 2000

Resources Available for Expenditures:

Available Appropriations From Prior Years

Budget Fiscal Year 1995	\$ 1,178,850
Budget Fiscal Year 1997	<u>2,581,074</u>
Total Available from Prior Years	\$ 3,759,924

Appropriations in Fiscal Years 1998-2000

Laws of Minnesota 1998, Chapter 404, Section 10: Reinvest in Minnesota, Permanent Wetland Preserve, Local Government Road Replacement, Quad-lakes Restoration, Lakeshore Easements, Minnesota River Basin Grant Program, Feedlot Water Quality	\$19,800,000
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Laws of Minnesota 2000, Chapter 492, Art 1, Sec 9: Reinvest in Minnesota and Permanent Wetland Preserve, Minnesota River Basin Conservation Reserve Enhancement Program (CREP), Implementation and Wetland Replacement Due to Public Road Projects	\$23,800,000
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Total Appropriations in Fiscal Years 1998-2000	\$43,600,000
Receipts	<u>23,043</u>

Available Resources	\$47,382,967
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Expenditures:

Personal Services	\$ 980,242
Real Property Expenditures (Easements)	10,232,067
Grants	2,471,472
Other	<u>718,236</u>
Total Expenditures	\$14,402,017

Available For Future Use	<u>\$32,980,950</u>
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Source: Minnesota Accounting and Procurement System (MAPS).

Board of Water and Soil Resources

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Chapter 2. Reinvest in Minnesota Reserve Program-Easement Purchases

Chapter Conclusions

The Board of Water and Soil Resources designed internal controls to provide reasonable assurance that easement payments were properly authorized and calculated for the Reinvest in Minnesota Reserve Program. However, we noted that the board did not adequately segregate duties over the recording of easements in the accounting system. For items tested, easement expenditures were made in accordance with material finance-related legal provisions.

The Board of Water and Soil Resources administers several easement programs. The Legislature periodically appropriates funds to purchase conservation easements. These appropriations are available until expended since easement transactions take several years to complete. The Reinvest in Minnesota (RIM) Reserve Program is the largest easement program with expenditures totaling about \$10 million in fiscal year 2000. The soil and water conservation districts administer the RIM Program at the local level.

The purpose of the RIM Program is to retire marginal, environmentally sensitive land from crop production. In 1998, the board began a partnership with the federal government for the Conservation Reserve Enhancement Program (CREP). The CREP is targeted to increase acreage and environmental benefits of the Minnesota River watershed.

The state enters into easement agreements with eligible landowners that give the state rights to the land. The easement is the formal agreement between the state and the landowner. The landowner receives payment for the land and payment for specific conservation practices that are outlined in an approved conservation plan. The board records its easement financial activities on an internal database and processes its transactions through the statewide accounting system (MAPS). The board requests federal reimbursements for approved projects.

Audit Objectives and Methodology

We focused our review on the following objectives related to the Reinvest in Minnesota Reserve Program-Easement Purchases:

- Did the board's internal controls provide reasonable assurance that easement expenditures were properly authorized, calculated, and accurately reported in the accounting records in compliance with management's authorization?
- Did the board comply with material finance-related legal provisions related to easements?

Board of Water and Soil Resources

To answer these questions, we interviewed board staff to gain an understanding of the controls in place. We also performed analytical reviews and tested a sample of transactions.

Conclusions

The Board of Water and Soil Resources designed internal controls to provide reasonable assurance that easement payments were properly authorized and calculated for the Reinvest in Minnesota Reserve Program. However, we noted that the board did not adequately segregate duties over the recording of easements in the accounting system. For items tested, easement expenditures were made in accordance with material finance-related legal provisions.

1. The Board of Water and Soil Resources did not adequately segregate duties over the recording of easements in the accounting system.

The Board of Water and Soil Resources did not have an appropriate separation of duties over easement expenditure functions. One person is responsible for requesting vendor numbers, entering payments in MAPS, and reconciling the transactions to the easement database. The same individual reviews any variances found in the reconciliation process and makes the adjustments on the database. These functions are typically incompatible and increase the risk of making improper payments. The risk of errors or irregularities increases without a segregation of duties or an independent review of the financial activity.

Recommendation

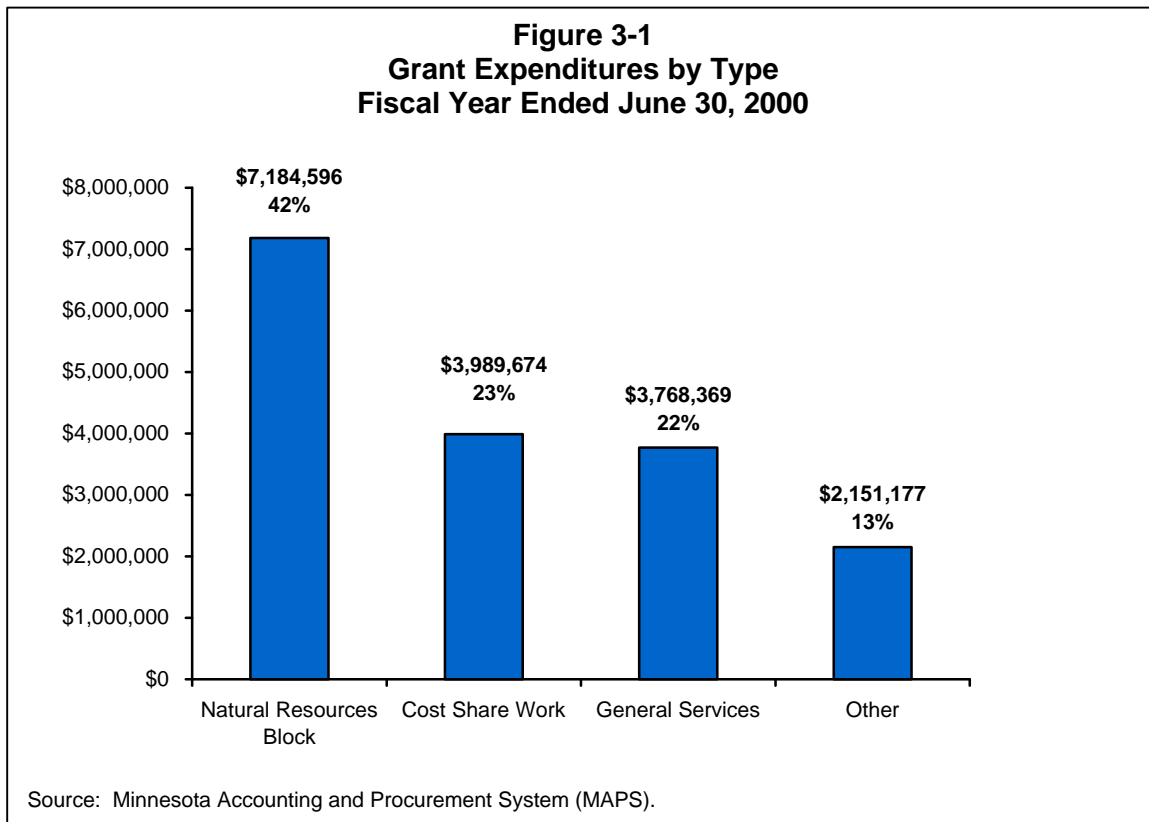
- *The Board of Water and Soil Resources should segregate duties over easements by having an independent person review easement expenditures.*

Chapter 3. Grant Expenditures

Chapter Conclusions

The Board of Water and Soil Resources designed internal controls to provide reasonable assurance that grant expenditures for the Natural Resource Block Grant and General Services Grants were properly authorized, calculated, and accurately recorded in the accounting records. However, the board needs to improve controls over the Cost Share Work Grant Program. For the items tested, the board complied with material finance-related legal provisions relating to these grants.

The Board of Water and Soil Resources operated several grant programs. The board awarded grants mainly to soil and water conservation districts and other local governments. Grant expenditures totaled \$17,093,816 in fiscal year 2000 and are shown by category in Figure 3-1. General Fund appropriations for grants were available for expenditure within the biennium. Grants provide financial and technical assistance for conservation, erosion control, and water quality management practices and programs.



Board of Water and Soil Resources

Natural Resources Block Grants

The Natural Resources Block Grant, which began in fiscal year 1994, provides assistance to counties for five natural resource programs including: local water planning, wetland conservation, shoreland management, feedlot permit, and individual sewage treatment systems (ISTS). The board added the ISTS component to the grant in fiscal year 1999. Counties are eligible to apply for funding from one or all of these programs. The Board of Water and Soil Resources determines the awards for the local water planning and wetland conservation act portions of the program based upon a formula. The Department of Natural Resources determines the awards for the shoreland management portion of the grant. The Minnesota Pollution Control Agency determines the awards for the feedlot permit and ISTS portions of the block grant. Counties submit grant applications and work plans to request funds under the block grant for a two-year period. Counties are required to match the grants from local funds.

Cost Share Work Grants

The Cost Share Work Grant provides funds to 91 soil and water conservation districts to share costs on priority projects. The program provides technical and financial assistance to landowners that install permanent, non-production-oriented practices designed to protect and improve soil and water resources. The board funds several projects in a district including strip cropping, terraces, storm water control systems, field windbreaks, and critical area stabilization. The Board of Water and Soil Resources administers this program at the state level, and the districts administer the activities at the local level. The local districts work in cooperation with landowners to treat resource problems that are having a negative impact on society.

General Service Grants

The board provides General Service Grants to the soil and water conservation districts for general administrative costs. The districts are required to submit a comprehensive plan and other annual reports to qualify for these grants. In fiscal year 2000, the general service grant appropriation also included funding for the State Revolving Fund Implementation Program. This program provides technical assistance for pollution control. Eleven joint powers groups of soil and water conservation districts act as fiscal agents for the local districts. The funds are used to pay for the salaries of engineers and technicians for technical assistance related to pollution abatement and for landowners to establish various conservation practices.

Audit Objectives and Methodology

Our audit of grant expenditures focused on the following objectives:

- Did the board's internal controls provide reasonable assurance that grant expenditures were properly authorized, calculated, and accurately reported in the accounting records?
- Did the board comply with material finance-related legal provisions related to grants?

Board of Water and Soil Resources

To answer these questions, we interviewed department personnel to gain an understanding of the procedures to process grants. We performed detailed testing of specific transactions and performed analytical reviews.

Conclusions

The Board of Water and Soil Resources designed internal controls to provide reasonable assurance that grant expenditures for the Natural Resource Block Grant and General Services Grants were properly authorized, calculated, and accurately recorded in the accounting records. However, the board needs to improve controls over the Cost Share Work Grant Program. For the items tested, the board complied with material finance-related legal provisions relating to these grants.

2. The Board of Water and Soil Resources did not properly monitor financial activity or have a comprehensive written policy for the Cost Share Grant Program.

The board did not separate duties or perform an independent review of the financial activity for cost-share grants. One employee encumbers and expends cost-share funds and reviews expenditures. The board did not monitor final grant expenditure reports and ensure that unexpended funds were returned to the board. Grantees are required to return unencumbered funds within 30 calendar days of the end of the grant period (Minnesota Rule 8400.146). We noted that a soil and water district did not return \$2,910 of unencumbered grant funds until September 1999 when the grant period ended in June 1998.

The board also did not have a comprehensive written policy that encompassed all factors impacting the calculation of cost-share grant awards to soil and water conservation districts. Board staff found differences in the amounts of the cost-share grants awarded to soil and water conservation districts. Analysis of these differences for fiscal years 1998-2000 resulted in underawards ranging from \$137 to \$50,000 and overawards ranging from \$691 to \$58,000. Board staff indicated that these differences could have occurred for a variety of reasons since the inception of the program. Lack of a comprehensive policy could result in an inequitable allocation of funds to the districts.

Recommendation

- *The Board of Water and Soil Resources needs to improve internal controls over cost-share grants to:*
 - *ensure that an independent person reviews cost-share grant expenditures to ensure that all expenditures were authorized and properly recorded in the accounting records,*
 - *institute a process to ensure that all unencumbered grant funds are returned after the end of the grant period within the timeframe outlined in Minnesota Rule 8400.146,*

Board of Water and Soil Resources

- develop a comprehensive written policy that encompasses all factors effecting the calculation of cost-share grants to ensure equitable allocations to the soil and water districts, and*
- determine if the board needs to adjust awards made to the districts for the differences noted during fiscal years 1998-2000.*

Chapter 4. Federal Grant Revenue

Chapter Conclusions

The Board of Water and Soil Resources provided reasonable assurance that federal grant revenue was properly deposited and recorded in the state's accounting system. However, the board did not submit reimbursement requests to certain organizations in a timely manner.

The Board of Water and Soil Resources received \$320,679 in federal grant revenues in fiscal year 2000. These grant revenues were generated from about 10 grants ranging from \$21,840 to \$114,000. Grants from the federal North American Wetland Conservation Act (administered by the North American Wetland Conservation Council, or NAWCC) contributed significantly to the board's outside funding. The board received these funds to acquire easements and install conservation practices on certain targeted areas in Minnesota. The Board of Water and Soil Resources also received federal Environmental Protection Agency (EPA) grants for a variety of projects including monitoring trends in the use of crop residue management for the purpose of reducing soil erosion, staffing to educate and provide construction oversight for erosion control, recognizing farmers who adopt and implement conservation practices to protect and improve water quality, and grazing lands projects which promote good grazing systems. In addition, the board received funds from the Federal Emergency Management Agency (FEMA) which passed-through to the University of Minnesota Extension.

Audit Objective and Methodology

Our review of federal revenue addressed the following question:

- Did the board's internal controls provide reasonable assurance that federal revenue was properly deposited and recorded in the accounting records?

To answer this question, we interviewed agency personnel to gain an understanding of the controls over federal revenue. We reviewed the grant agreements and reports and performed detailed testing of specific transactions and performed analytical reviews.

Conclusions

The board's internal controls provided reasonable assurance that federal grant revenue was properly deposited and accurately reported in the accounting records. For the transactions tested, the Board of Water and Soil Resources complied with material finance-related legal provisions. However, the board did not submit reimbursement requests to certain organizations in a timely manner.

Board of Water and Soil Resources

3. The Board of Water and Soil Resources did not submit reimbursement requests to certain organizations in a timely manner.

The Board of Water and Soil Resources receives funding from the federal government for reimbursement of expenditures that the board has incurred for various projects, either directly or as part of agreements made between the board and other agencies or organizations to obtain federal funding. However, the board had not requested reimbursement of funds in a timely manner from certain organizations. The Department of Finance recommended that the board submit quarterly reimbursement requests. Prompt reimbursement increases the funds available to fund board programs. We noted the following instances in which the board could have been more timely in submitting reimbursement requests to certain organizations:

- The board submitted a request for federal funds dated November 19, 1998, to the Department of Natural Resources. The request was for reimbursement of \$306,189 in conservation easement expenditures from the North American Wetlands Conservation Act (NAWCA)- Heron Lake Watershed Restoration Project. The board incurred costs of \$208,556 in March and July 1997 and April 1998. The remaining \$97,633 in costs were incurred in October 1998.
- The board did not request reimbursement of \$407,590 from the Pheasants Forever federal funds until March 6, 1998, for expenditures incurred from June 1995 to December 1997. The expenditures related to the Minnesota River Watershed Wetland Conservation project, Phase II funded by NAWCA.
- The board submitted a reimbursement request on March 12, 1998, to the Nature Conservancy, a grantee of the NAWCA, for the Northern Tallgrass Prairie Restoration project. The expenditures of \$35,875 related to two easements dated April 1997.
- The board received a sub-grant from the Department of Public Safety, a grantee of the Federal Emergency Management Agency (FEMA). The board paid \$47,255 to the University of Minnesota Extension to research and evaluate whether plan materials were viable as snow fences for snow control and energy conservation. The payment was dated October 15, 1999, however, the board's reimbursement request was dated February 25, 2000.
- The board disbursed a total of \$9,731 to the University of Minnesota from October 1999 through March 2000. As of March 1, 2001, the board had not requested reimbursement for these expenditures. The Environmental Protection Agency (EPA) granted funds to the board for the period October 1998 to December 2000 for wetland protection and education activities.

Recommendation

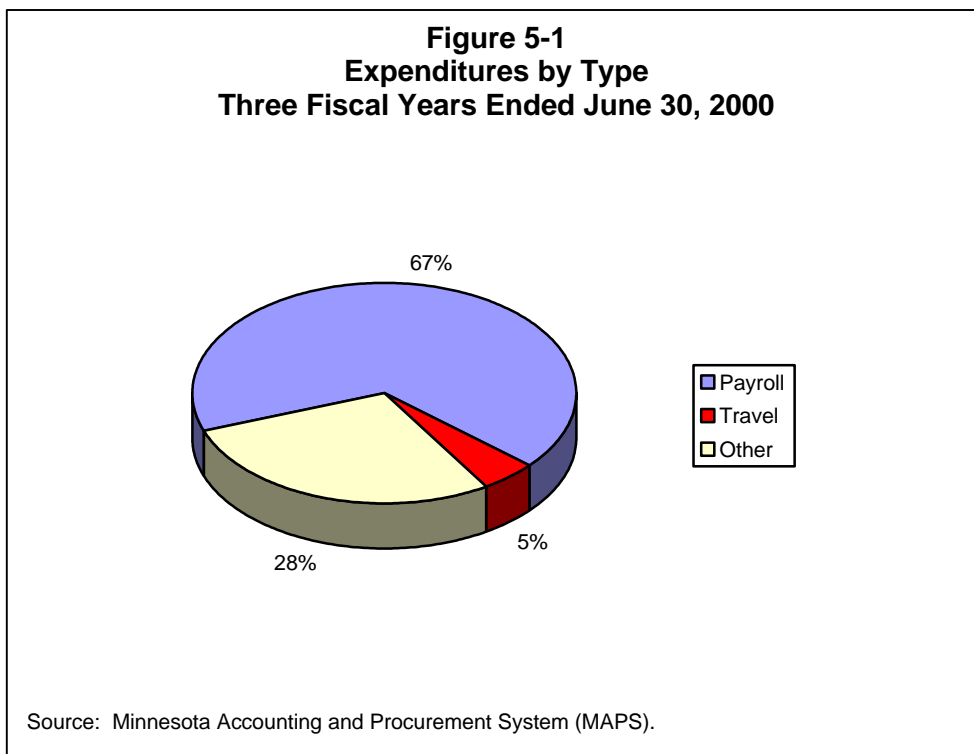
- *The board should seek reimbursement from all funding sources on a timely basis.*

Chapter 5. Payroll and Other Administrative Expenditures

Chapter Conclusions

Generally, the Board of Water and Soil Resources' internal controls provided reasonable assurance that payroll and other administrative expenditures were properly authorized, accurately reported in the accounting records, and in compliance with applicable bargaining unit agreements and state policies and procedures. For the items tested, the board complied, in all material respects, with the significant finance-related legal provisions concerning payroll and other administrative expenditures. However, the board paid per diems to a board member who was not eligible for these payments.

Payroll represents the Board of Water and Soil Resource's largest expenditure. In addition to payroll, the agency incurred other administrative costs for employee travel reimbursements and board member per diems. Figure 5-1 shows the expenditures by type for the three fiscal years ended June 30, 2000.



Board of Water and Soil Resources

Payroll

Payroll represents the board's largest expenditure, averaging \$3 million annually. The Board of Soil and Water Resources employed approximately 70 people during the audit period. One board employee is responsible for processing the biweekly payroll in the state's payroll system (SEMA4) using the agency's electronic timesheet data as the source of the input. The accounting officer verifies the accuracy of the input each pay period and serves as a backup. The board has a separate person who is responsible for the SEMA4 human resource functions of the agency. None of these individuals have any incompatible access to either payroll or human resource functions.

Travel and Per Diems

The board incurred travel costs for both staff and board members throughout the audit period. These costs totaled \$236,050 in fiscal year 2000. The majority of staff travel was incurred by employees who are responsible for monitoring the financial activity of the various soil and water conservation districts that receive grant funds from the board. The board reimburses staff for eligible travel expenses in amounts allowed in the bargaining unit agreements. Board members are also eligible for travel costs incurred as a result of their service on the board, including meals, lodging, private car mileage, and per diems. Minn. Stat. Sec. 15.0575, regulating board compensation, also allows board members to receive per diems unless they are full-time employees of the state or a political subdivision.

Other Administrative Expenditures

The board incurred other general administrative operating expenditures for day to day board operations, including rent, motor pool expenditures, supplies, network services, computer and peripherals, and other services totaling \$590,769 in fiscal year 2000.

Audit Objectives and Methodology

Our audit of payroll and other administrative expenditures focused on the following objectives:

- Did the board's internal controls provide reasonable assurance that payroll and other administrative expenditures were properly authorized, accurately recorded in the accounting system, and in compliance with applicable bargaining unit agreements and state policies and procedures?
- Did the board accurately compensate its employees and reimburse travel costs in accordance with the provisions of the applicable bargaining unit agreements and policies and procedures?
- Did the board make per diem payments in compliance with applicable statutory provisions?

Board of Water and Soil Resources

To answer these questions, we obtained an understanding of the internal control structure over payroll and travel. We analyzed employee compensation and tested hours worked, pay rate increases, and travel reimbursements to ensure compliance with the terms of the applicable bargaining unit agreements and policies and procedures. For per diem payments to board members, we tested the propriety of payments in conjunction with Minn. Stat. Section 15.0575, subd. 3. We also analyzed other general administrative expenditures to determine if they appeared to be a reasonable and prudent use of agency resources.

Conclusions

Generally, the Board of Water and Soil Resources' internal controls provided reasonable assurance that payroll and other administrative expenditures were properly authorized, accurately reported in the accounting records, and in compliance with applicable bargaining unit agreements and state policies and procedures. For the items tested, the board complied, in all material respects, with the significant finance-related legal provisions concerning payroll and other administrative expenditures. However, the board paid per diems to an ineligible board member.

4. The Board of Water and Soil Resources paid per diems to an ineligible board member.

From March 2000 through January 2001, the board inappropriately paid per diems totaling \$1,595 to a board member employed by the Metropolitan Council. Minn. Stat. Section 15.0575, which governs compensation for numerous boards in addition to the Board of Water and Soil Resources, prohibits full-time employees of the state or a political subdivision of the state from receiving per diem compensation.

That statute states:

Members who are full-time state employees or full-time employees of the political subdivisions of the state may not receive the daily payment, but they may suffer no loss in compensation or benefits from the state or political subdivision as a result of their service on the board.

Although the board cited the statute in their administrative policy regarding board member expenses, the board did not have a process to gather information on board member employment. The board also gives an informational memo regarding board member expenses to board members; however, this memo doesn't address instances when per diems are not allowed.

Recommendations

- *The board should work with the Office of the Attorney General to obtain repayment of the inappropriate per diem payments.*
- *The board should establish a procedure to obtain and monitor board member employment information to ensure compliance with Minn. Stat. Section 15.0575.*
- *The board should revise the informational memo given to board members to clarify when payment of per diem is not allowable.*

Board of Water and Soil Resources

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Board of Water and Soil Resources

Status of Prior Audit Issues As of March 8, 2001

Most Recent Audit

Legislative Audit Report 98-32, issued in May 1998, covered the two fiscal years ended June 30, 1997. The scope of this audit included easements, grants, payroll, and travel and per diems. The report included no written findings.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

Board of Water and Soil Resources

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Dear Mr. Nobles:

Thank you for the opportunity to respond to the findings and recommendations included in your audit report for the financial activities of the Board of Water and Soil Resources for the period July 1, 1997 through June 30, 2000. We have found the information in your report to be very informative and helpful in our initiative to improve on our internal control processes for the agency. A specific response is included in this letter to each of your recommendations. This letter will respond in the same order as the recommendations in your report.

The first recommendation can be found in at the end of chapter two Reinvest in Minnesota Reserve Program – Easement Purchases. The recommendation indicated that the BWSR should segregate duties over easements by having an independent person review easement expenditures. This recommendation has been addressed in the changes that have been made in our Administrative Services Division to implement month end review of all financial transactions. In addition, roles and responsibilities for processing transactions in the accounting section have been reassigned to assure that one individual is not handling all components of the transaction. The accounting coordinator for the agency will review all open and expenditure transactions at the end of each month that have been processed by the accounting technician. In addition, the accounting staff compares the information sent to them with the information entered into the easement database. Any discrepancies will be identified to the easement section lead worker so that corrections can be made in the database. Individuals responsible for making sure this review occurs and that the duties are properly segregated are Tammy McGlone, Administrative Services Director and Kevin Lines, Easement Section Leader.

The next recommendations are found in chapter three, Grant Expenditures. The recommendation is that the BWSR needs to improve internal controls over cost-share grants. The recommendation has four separate components addressed in order.

- The first component is to ensure an independent person reviews cost-share grant expenditures to ensure expenditures are

authorized and properly recorded. This has been addressed in implementing our monthly reconciliation of expenditures and open encumbrance items to MAPS. The accounting coordinator will review all expenditure and encumbrance processed monthly to ensure that proper independent review of transactions occurs. In addition, prior to entering encumbrances into the MAPS system, cost-share allocations will be compared to the list as approved by the board. That will assure that the cost-share amounts encumbered when grant documents are sent to recipients do not exceed the amount approved by the Board.

- The second part of the recommendation is that the board should institute a process to ensure that all unencumbered grant funds are returned after the end of the grant period as required by rule. There is a current process in place by which Board Conservationists as part of their regular review of district activities, review the activities of a district to assure that funds have been spent or returned as required by rule. Because of the staff time allocations, these reviews may not occur as rapidly as may be most desirable, but given the human resource levels of the board, they are occurring in a timely manner and have proven by history to be effective and efficient in assuring the proper return of funds.
- The third component of the recommendation suggests the board should develop a comprehensive written policy that encompasses all factors effecting the calculation of cost-share grants to ensure equitable allocations to soil and water conservation districts. In February of 2001 the board, after a year long process, adopted a new cost-share allocation policy that will take effect in July 2001. The new policy documents both the rationale and methods by which future cost-share allocations will be determined. The current policy is consistent with the cost-share law and associated rule.
- The final portion of this recommendation is that the board needs to adjust awards for the differences noted. The differences noted occurred over a period of 15 years dating back to 1986. During those 15 years the board made numerous changes to the individual cost-share allocations, based on changing resource conditions, administrative penalties, and changing state resource priorities. At no time did the changes conflict with the statutory and rule requirements of the cost-share program. On that basis the board will not be adjusting awards to individual soil and water conservation districts.

This chapter also commented on the need for separation of duties and need for independent review. This has been addressed in changing internal control processes for all financial transactions to verify MAPS data and provide a reconciliation to source documents. As to separation of duties, the same person calculating the allocation does not enter the data into the MAPS system or authorize or make the payments. That should be sufficient separation of duties to assure sufficient controls. Wayne Zellmer, agency grants coordinator will be responsible for the recommendations in this area.

The next recommendations are included in chapter four of the audit report. In order to implement the recommendation that the board should seek reimbursement from all funding sources on a timely basis, the duties for monitoring and tracking all agency grants has been assigned to the accounting officer working out of the southern region.

This position will be responsible for monitoring and tracking all grants for agency operations, assuring the proper and timely request for funds and reporting to agencies providing funding. The individual responsible for implementing this request is Sara Johnson, Accounting Officer.

The final recommendation can be found in chapter five and deals specifically with the payment of per-diem to a specific board member that is an employee of the Metropolitan Council. At this point, the agency has a specific dispute with this recommendation. The board member in question is not a board member as an employee of the Metropolitan Council. The individual is on the board as a member of a Watershed District. As an employee of the Metropolitan Council, this individual would not be eligible to be a board member. As this individual is not representing the Metropolitan Council, the Council is not under any obligation to assure that the employee suffers no loss in compensation or benefits as a result of their service on the board. The statute cited in this recommendation specifically requires that the employee of the state or political subdivision may suffer no loss in compensation or benefits. The board members activity as a watershed district representative is outside the scope of his employment. The BWSR board member is not compensated by the Met Council for BWSR board business. The only option available from the board members employer is to use annual leave or to take leave without pay. This constitutes a loss of compensation/benefits as he has to either take time without pay or approved annual leave. As a result, it is the agencies opinion that this board member is an exception to M.S. 15.0575. It is not the intent of the agency at this time to attempt to recover funds paid to the board member because the statutory exception applies.

The board executive director is familiar with the employment of all members. As a matter of fact, there is a historical situation where an individual was appointed to the board, the executive director discovered this appointee was a government employee and determined that individual could not be appointed to the board.

The executive director will review the information given to board members to assure the accuracy of the information and per diem eligibility.

Again, thank you for the opportunity to provide this response to your report.

Sincerely,

/s/ Ronald D. Harnack

Ronald D. Harnack
Executive Director