

**ENVIRONMENT AND NATURAL RESOURCES
TRUST FUND**

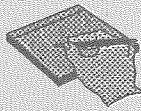
SELECTED SCOPE FINANCIAL AUDIT

JULY 1, 1991 - DECEMBER 31, 1992

NOVEMBER 1993

**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**

93-57



Note to Report Readers

The Financial Audit Division introduces a new report style in nine audits being released during the Summer of 1993. The division plans to use the new style on a trial basis and will later evaluate report readers' preferences. The new style replaces the traditional format of reporting only on an "exception basis." In the traditional format, auditors commented primarily on problems which the reports presented as findings and recommendations. Readers may have grown accustomed to using report length as a gauge for the extent of problems. With the new style, report length is not a reliable indicator of the extent of audit findings. These new reports contain more extensive factual and analytical data. Report readers should find this additional information useful. The division has attempted to make the new report style easy to identify and understand.

Identifying the New Report Style

The division distinguishes the new style reports by printing the report title in red ink, rather than the black ink used for traditional financial audit reports. All Financial Audit Division reports continue to use the gray-colored report covers. The report title shows through the window cutout on the gray cover. The inside cover page highlights the new style. This Note to Report Readers follows the inside cover page and describes the new style.

New Features

The new reports devote a separate chapter to each major audit area. Chapters contain detailed information on the audit scope, analytical results, and conclusions. Each chapter also elaborates on applicable management practices and processes. Financial auditors have always accumulated this additional information, but traditionally retained the information in the working papers and did not publish it as part of the final report.

To provide for a quick understanding of the audit results, the chapter structure allows readers to visually scan for items of interest or concern. Readers should look for the following features in each chapter:

1. The audit conclusions summarized at the beginning of the each chapter,
2. Tables and charts highlighting important financial information, and
3. Any audit findings and recommendations.

Aside from the format for presenting audit findings and recommendations, the new report style preserves the other elements of the traditional financial audit report. Report readers should recognize these other standard elements of the traditional reports: (1) Scope and Conclusions Letter, (2) Table of Contents, (3) Introduction, (4) Agency Response, and (5) an inserted Report Summary (although the new style uses a modified version of the report summary). Audit findings continue to be numbered and presented in bold-faced print. Recommendations are highlighted in italics. However, the Audit Findings and Recommendations are embedded in the appropriate report chapters, rather than aggregated in a separate report section.

Reasons for the Change

The traditional financial audit reports have several limitations. The reports often tend to be very technical documents. Also, reports with few findings communicate the audit results in a very abbreviated manner. Exception-based reporting requires auditors to either present audit findings or to simply state that the audit revealed no findings. This reporting style does not allow for positive conclusions or analysis of areas without audit findings.

The division was concerned about the risk that some report readers may have difficulty understanding audit results. It had begun to narrow its audit scope for several larger, more complex agencies. These "selected scope" audits were an effort to stretch scarce staff resources into as many audits as possible. But the division was particularly concerned that readers would project the audit results from a few selected programs to conclusions about an entity's overall financial management. The new report style more effectively presents the audit scope within the context of the entity's total operations.

Exception-based reporting does not fully accommodate the extent that auditors must exercise professional judgment. Auditors must interpret laws and policies. They must weigh the costs of control deficiencies against the benefits of preventing potential problems. It is particularly challenging to audit entities that are exempt from standard state policies and regulations. For those audits, the auditors must judge whether the entity has adopted "reasonable" and prudent practices for a public entity. Many issues require difficult decisions about whether or not an audit finding exists. Under the traditional report format, the auditor presents comments only when concluding that a finding exists. The new report style removes this limitation. Although the auditor's judgment remains important, the new report style also allows readers to reach their own conclusions.

Audits with the New Report Style

Look for the new report style in the audits of the following nine entities.

Department of Corrections	Department of Human Services
State University System	Community College System
Department of Natural Resources	University of Minnesota Medical School
Minnesota State Lottery	Environment and Natural Resources
State Public Defender	Trust Fund

Eight of the nine are "selected scope" audits covering only some programs of the entity. The Minnesota State Lottery is an entity-wide audit limited to testing for legal compliance with state laws and regulations.

Share Your Comments

If you have comments about the new report style, please contact the Financial Audit Division at (612) 296-1730.

ENVIRONMENT AND NATURAL RESOURCES TRUST FUND

SELECTED SCOPE FINANCIAL AUDIT FOR THE PERIOD JULY 1, 1991 - DECEMBER 31, 1992

Public Release Date: November 19, 1993

No. 93-57

AGENCY BACKGROUND

The Environment and Natural Resources Trust Fund was established by constitutional amendment in November 1988. It provides a long-term permanent and stable source of funding for natural resources. The Legislature authorized the first appropriations from the trust fund in 1991. The appropriations, which totaled \$14,960,000, were made to nine different agencies and were available for the period July 1, 1991 through June 30, 1993. As of December 31, 1992, the agencies had spent \$7,155,124 of the appropriated funds.

SELECTED AUDIT AREAS

As provided in Minn. Stat. Section 116P.04, Subd. 5, the objective of our audit was to determine if trust fund expenditures were made for the purposes provided in the Legislative Commission on Minnesota Resources budget plan. We selected a sample of departments and individual projects for review. We performed tests of project activity at the Department of Natural Resources, the Board of Water and Soil Resources, and the Department of Education.

♦ *Department of Natural Resources Projects*

The Department of Natural Resources (DNR) had 16 trust fund projects funded from \$5,760,000 in appropriations and \$35,000 in grant receipts. We questioned certain expenditures for three of the four projects we reviewed at DNR. The department inappropriately charged \$44,091 in lump sum employee achievement awards to one project. In addition, the propriety of certain capital expenditures and employee salaries charged to two projects is questionable.

♦ *Board of Water and Soil Resources Projects*

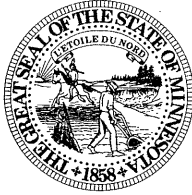
The Board of Water and Soil Resources (BWSR) received funding of \$2,060,000 for six trust fund projects. We found problems with three of the six projects. The board did not adequately document the selection process and did not monitor grantee expenditures for two projects. In addition, we questioned whether expenditures of \$45,756 complied with a project's objectives.

♦ *Department of Education Projects*

The Department of Education (DOE) had two projects funded from appropriations totaling \$830,000. We believe the department did not exercise adequate oversight for the grant portion of the two projects. In addition, we question whether selected expenditures complied with statutory and administrative guidelines for the projects.

Contact the Financial Audit Division for additional information.

296-1730



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Mr. John Velin, Director
Legislative Commission on Minnesota Resources

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

Ms. Linda Powell, Commissioner
Department of Education

Mr. Rodney Sando, Commissioner
Department of Natural Resources

Audit Scope

We have conducted a financial related audit of selected expenditures of the Environment and Natural Resources Trust Fund for the period July 1, 1991 through December 31, 1992. Chapter 1 provides a brief description of the Environment and Natural Resources Trust Fund and our audit scope. Chapters 2 through 4 discuss the results of our audit.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transactions of the Environment and Natural Resources Trust Fund are free of material misstatements.

As provided in Minn. Stat. Section 116P.04, Subd. 5, the objective of our audit was to determine if trust fund expenditures were made for the purposes provided in the Legislative Commission on Minnesota Resources (LCMR) budget plan. To accomplish this objective, we interviewed LCMR staff to gain an understanding of the budget plan and the policies and procedures established to control expenditures. We then selected a sample of departments and individual projects for further review. We performed tests of project activity at the Department of Natural

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Resources, the Board of Water and Soil Resources, and the Department of Education. We tested compliance with certain provisions of laws, regulations, contracts, and grants related to the Environment and Natural Resources Trust Fund. However, our objective was not to provide an opinion on overall compliance with such provisions.

To achieve our objective, we obtained an understanding of the design of relevant internal control policies and procedures and determined whether they have been placed in operation, and we assessed control risk. Our review was more limited than would be necessary to express an opinion on the internal control structures taken as a whole for the Department of Natural Resources, the Board of Water and Soil Resources, and the Department of Education.

Management Responsibilities

The management of the Department of Natural Resources, the Board of Water and Soil Resources, and the Department of Education are responsible for establishing and maintaining an 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.

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Conclusions

Our review of selected project expenditures identified some common areas of concern relating to agency project administration. We found that:

- program guidelines and work plans did not address allowability of certain costs, such as capital expenditures and costs benefiting various projects;
- state agencies often did not exercise adequate oversight for grants to nonstate entities; and
- agencies did not strictly comply with statutory requirements relating to staff employment.

We believe the Legislative Commission on Minnesota Resources should review these areas of concern to determine if further project guidelines or statutory revisions are necessary. We discuss our specific conclusions in Chapters 2 through 4.

In Chapter 2, we question certain expenditures for three of the four projects reviewed. We conclude that the Department of Natural Resources inappropriately charged \$44,091 in lump sum employee achievement awards to one of its projects. In addition, the propriety of certain capital expenditures is questionable. Also, the department charged classified employee salaries to two projects in violation of statutory requirements.

As discussed in Chapter 3, our review identified concerns about three of the six projects administered by the Board of Water and Soil Resources. We found that the board did not adequately document the grantee selection process and did not monitor grantee expenditures for two projects. In addition, we questioned whether expenditures totaling \$46,756 complied with objectives for two projects.

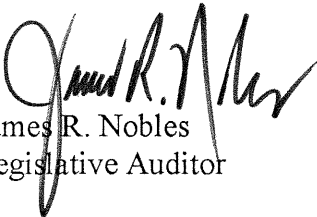
In Chapter 4, we discuss our conclusions from the review of the two projects administered by the Department of Education. We think the department did not effectively administer the grant portion of the two trust fund projects. In addition, we question whether selected expenditures complied with statutory and administrative guidelines for the two projects.

This report is intended for the information of the Legislative Audit Commission and the Legislative Commission on Minnesota Resources, and management of the Department of

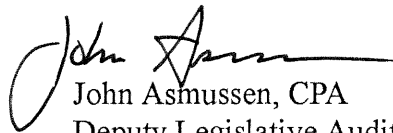
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Natural Resources, the Board of Water and Soil Resources, and the Department of Education. This restriction is not intended to limit the distribution of this report, which was released as a public document on November 19, 1993.

We thank the staff of the Legislative Commission on Minnesota Resources, the Department of Natural Resources, the Board of Water and Soil Resources, and the Department of Education for their cooperation during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: June 18, 1993

Report Signed On: November 12, 1993

Environment and Natural Resources Trust Fund

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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
Claudia Gudvangen, CPA	Audit Manager
Lori Pellicci, CPA	Auditor-In-Charge
Kari Irber, CPA	Auditor

Exit Conferences

The issues on this report were discussed with the staff of the following agencies:

Board of Water and Soil Resources	October 6, 1993
Department of Education	October 7, 1993
Department of Natural Resources	October 13, 1993

Environment and Natural Resources Trust Fund

Chapter 1. Introduction

The Environment and Natural Resources Trust Fund was established by constitutional amendment in November 1988. Article XI, Sec. 14 of the Constitution of the State of Minnesota, as amended in November 1990, provides, in part:

The principal of the environment and natural resources trust fund must be perpetual and inviolate forever, except appropriations may be made from up to 25 percent of the annual revenues deposited in the fund until fiscal year 1997 and loans may be made of up to five percent of the principal of the fund for water system improvements as provided by law.....The net earnings from the fund shall be appropriated in a manner prescribed by law for the public purpose of protection, conservation, preservation, and enhancement of the state's air, water, land, fish, wildlife, and other natural resources. Not less than 40 percent of the net proceeds from any state-operated lottery must be credited to the fund until the year 2001.

This constitutional provision provides a long-term permanent and stable source of funding for natural resources. The State Board of Investment invests trust fund monies pursuant to Minn. Stat. Section 11A.24. Investment income is available each biennium for expenditure. In addition, as shown in Table 1-1, for each biennium through 1997 the Legislature has provided varying percentages of additional revenue up to the constitutional limitation.

Table 1-1
Environment and Natural Resources Trust Fund
Additional Revenue Available for Funding Projects

- For the 1991-1993 biennium, up to 25 percent of the revenue deposited in the trust fund in fiscal years 1990 and 1991;
- For the 1993-1995 biennium, up to 20 percent of the revenue deposited in the trust fund in fiscal year 1992 and up to 15 percent of the revenue deposited in the fund in fiscal year 1993;
- For the 1993-1995 biennium, up to 25 percent of the revenue deposited in trust fund in fiscal years 1994 and 1995, to be expended only for capital investments in parks and trails; and
- For the 1995-1997 biennium, up to ten percent of the revenue deposited in the fund in fiscal year 1996.

Source: Minn. Stat. Section 116P.11 (b).

Environment and Natural Resources Trust Fund

Table 1-2 shows the financial activity for the trust fund corpus from inception of the fund through Fiscal Year 1992.

Table 1-2
Environment and Natural Resources Trust Fund
Trust Fund Corpus
Summary of Financial Activity
Three Years Ended June 30, 1992

	<u>Year Ended June 30</u>		
	<u>1990</u>	<u>1991</u>	<u>1992</u>
Beginning Fund Balance	\$ <u>0</u>	\$ <u>2,734,734</u>	\$ <u>22,799,621</u>
Revenue:			
Lottery Proceeds	\$2,734,434	\$20,064,887	\$17,487,833
Gifts and Donations	<u>300</u>	<u>805</u>	<u>3,602</u>
Total	\$2,734,734	\$20,064,887	\$17,491,435
Ending Fund Balance	<u>\$2,734,734</u>	<u>\$22,799,621</u>	<u>\$40,291,056</u>

Note 1: In addition, any appropriated funds not encumbered in the biennium in which they are appropriated cancel and are to be credited to the principal of the trust fund.

Source: State of Minnesota Comprehensive Annual Financial Reports and supporting accounting records.

As provided in Minn. Stat. Section 116P.03, the trust fund may not be used as a substitute for traditional sources of funding environmental and natural resources activities, but the trust fund shall supplement the traditional sources. The trust fund is to be used primarily to support activities whose benefits become available only over an extended period of time.

Environment and Natural Resources Trust Fund

Table 1-3 shows the financial activity for the expendable portion of the trust fund for the same three year period.

Table 1-3
Environment and Natural Resources Trust Fund
Expendable Trust Fund Portion
Summary of Financial Activity
Three Years Ended June 30, 1992

	<u>Year Ended June 30</u>		
	<u>1990</u>	<u>1991</u>	<u>1992</u>
Beginning Fund Balance	\$ 0	\$ 911,505	\$ 8,840,055
Revenue:			
Lottery Proceeds	\$911,478	\$6,688,027	\$ 4,372,058
Investment Income	27	1,240,253	2,611,109
Gifts and Donations		270	901
Total Revenue	<u>\$911,505</u>	<u>\$7,928,550</u>	<u>\$ 6,984,068</u>
Expenditures:			
Current Expenditures			\$ 2,508,700
Capital Outlay			699,929
Grants			<u>1,812,549</u>
Total Expenditures			<u>\$ 5,021,178</u>
Ending Fund Balance	<u>\$911,505</u>	<u>\$8,840,055</u>	<u>\$10,802,945</u>

Source: State of Minnesota Comprehensive Annual Financial Reports and supporting accounting records.

During our annual statewide audit, we verify the propriety of revenue deposited to the trust fund. We perform tests of investment income at the State Board of Investment. We also verify the proper distribution of lottery proceeds to the trust fund, and the appropriate allocation of revenues between fund corpus and expendable balance. In our audits of the Minnesota State Lottery for the years ended June 30, 1991 and 1992, we questioned the Lottery's authority to maintain reserve accounts, thereby reducing distributions to the trust fund.

The Legislative Commission on Minnesota Resources (LCMR), consisting of 16 members of the legislature, administers the trust fund. LCMR recommends a biennial budget plan for trust fund expenditures. In addition, it adopts a six year strategic plan identifying priority areas for funding. LCMR employs a staff to assist it in its responsibilities. John Velin currently serves as LCMR Director.

Environment and Natural Resources Trust Fund

Biennially, state agencies and other entities submit proposed projects to LCMR for review. The Legislature appropriates funds to state agencies for two-year projects based on LCMR recommendations. A peer review panel must review research proposals before the Legislature appropriates monies from the trust fund. In addition to the trust fund, appropriations from the Minnesota Future Resources Fund and federal oil overcharge funds finance similar environmental projects.

The Legislature authorized the first appropriations from the trust fund in the 1991 legislative session. The appropriations funded projects scheduled for the period July 1991 through June 1993. Table 1-5 identifies the projects approved in 1991.

In many cases, project appropriations were not fully expended and the projects had not been completed at the time of our review. Table 1-4 shows the financial status of the trust fund at December 31, 1992.

Table 1-4
Environment and Natural Resources Trust Fund
Summary of Project Financial Activity
July 1, 1991 - December 31, 1992

Project Appropriations	\$ 14,960,000
Appropriation Canceled	(100,000)
Expenditures	<u>(7,155,124)</u>
Unexpended Appropriation	<u>\$ 7,704,876</u>

Note 1: Subsequent to December 31, 1992, an additional \$40,000 appropriation was canceled.

Source: Statewide Accounting System accounting records and detailed transactions as of December 31, 1992.

Environment and Natural Resources Trust Fund

Table 1-5
Environment and Natural Resources Trust Fund
Projects Funded for 1991-1993 Biennium

Agency (Note 1)	Project	Appropriation Amount
<u>Recreation Projects:</u>		
DNR	Lower St. Croix Riverway Land & Water Management	\$ 360,000
DNR	Mississippi River Valley Blufflands Initiative	150,000
DNR	Rails-to-Trails Acquisition and Development	<u>1,000,000</u>
Subtotal Recreation		<u>\$ 1,510,000</u>
<u>Water Projects:</u>		
SPA	Stream & Watershed Information System	\$ 200,000
DNR	So. Cent. Mn Surface Water Atlases & Data Bases	300,000
PCA	Mn River Basin Water Quality Monitoring	700,000
UM	County Geologic Atlases	800,000
DNR	Groundwater Sensitivity Mapping	600,000
PCA	Clean Water Partnership Grants	700,000
BWSR	Cannon River Watershed Grants	60,000
PCA	Mitigating Mercury in NE Mn Lakes	300,000
DNR	Ecological Evaluation of Year-Round Aeration	100,000
BWSR	Erosion Control Cost-Sharing	250,000
BWSR	Well Sealing Cost-Share Grants	<u>750,000</u>
Subtotal Water		<u>\$ 4,760,000</u>
<u>Education Projects:</u>		
DOE - Note 4	Model K-12 Environmental Education Curriculum	\$ 400,000
DOE - Note 4	Environmental Education in Community Education	30,000
DNR - Note 4	Environmental Learning Centers Plan	60,000
SPA - Note 4	Assessment of Environmental Learning Centers	85,000
SPA - Note 4	Statewide Environmental Education Plan	215,000
DOE	Video Education Research and Demonstration	100,000
DNR	Integrated Resource Management Education	300,000
SM	Environmental Exhibits Collaborative	400,000
Subtotal Education		<u>\$ 1,590,000</u>
<u>Agriculture Projects:</u>		
AGR	Biological Control of Pests	\$ 650,000
BWSR	Conservation Reserve Easements	600,000
EQB	Generic Environmental Impact Statement	<u>400,000</u>
Subtotal Agriculture		<u>\$ 1,650,000</u>

Environment and Natural Resources Trust Fund

Table 1-5 (continued)

Agency (Note 1)	Project	Appropriation Amount
<u>Wildlife Projects:</u>		
DNR	Insecticide Impact on Wetland and Upland Wildlife	\$ 650,000
DNR	Biological Control of Eurasian Water Milfoil (Note 3)	100,000
DNR	County Biological Survey	1,000,000
UM	Data Base for Plants of Minnesota	130,000
PCA	Aquatic Invertebrate Assessment Archive	130,000
DNR	Wetlands Forum (Note 3)	40,000
BWSR	Easement Acquisition on Restored Wetlands	400,000
DNR	Restore Thomas Sadler Roberts Bird Sanctuary	50,000
DNR	Changes in Ecosystem on Forest Bird Biodiversity	<u>300,000</u>
Subtotal Wildlife		<u>\$ 2,800,000</u>
<u>Land Projects:</u>		
SPA	Base Maps for the 1990s	\$ 1,900,000
DNR	Digitalization of Wetlands & Waters Inventory	<u>750,000</u>
Subtotal Land		<u>\$ 2,650,000</u>
Total Projects		<u>\$14,960,000</u>

Note 1: Agencies: DNR-Department of Natural Resources; SPA-State Planning Agency; PCA-Pollution Control Agency; BWSR-Board of Water and Soil Resources; UM-University of Minnesota; DOE-Department of Education; SM-Science Museum of Minnesota; EQB-Environmental Quality Board.

Note 2: As a result of agency reorganization, State Planning Agency water and land projects were transferred to the Department of Administration and education projects were transferred to the Department of Education.

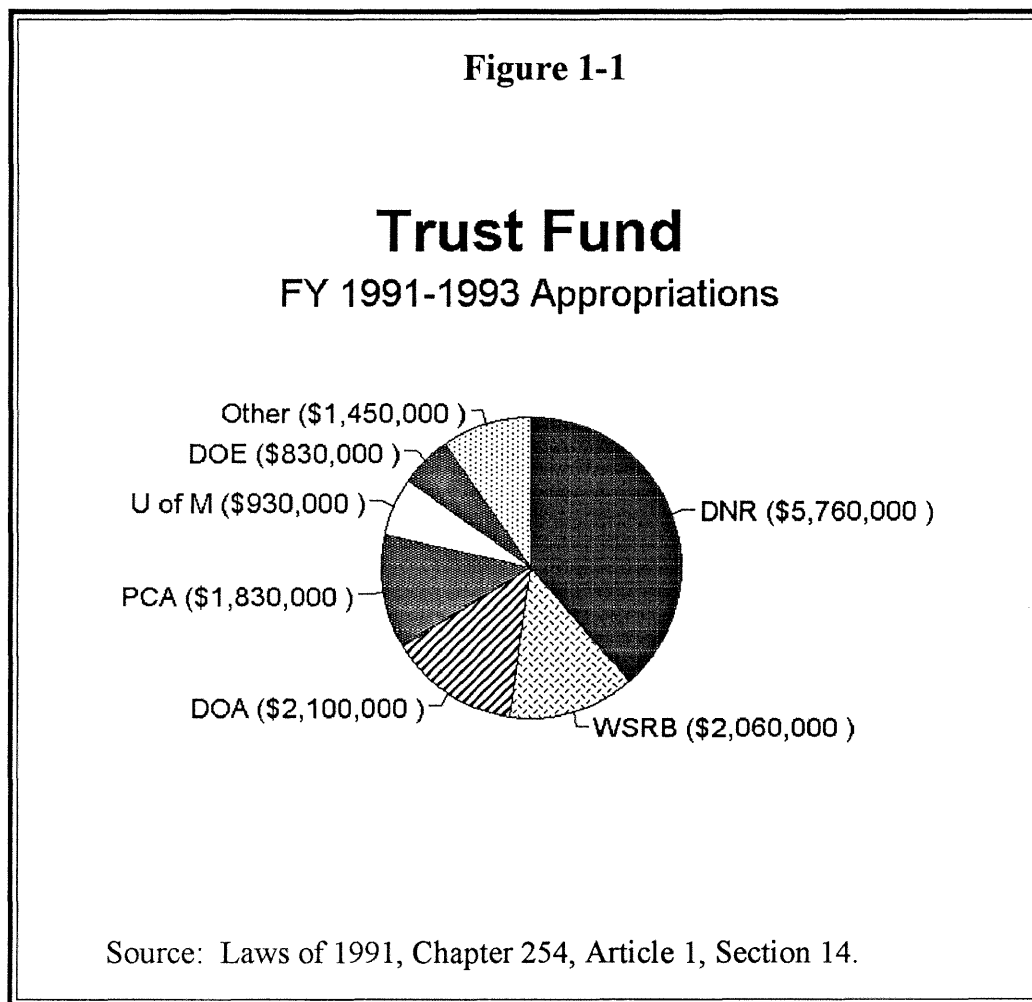
Note 3: These appropriations were subsequently canceled, when required match was not provided.

Note 4: These appropriations were combined into the environmental education project.

Source: Laws of 1991, Chapter 254, Article 1, Section 14.

Environment and Natural Resources Trust Fund

We examined the first 18 months of financial activity for a sample of projects funded for the 1991-1993 biennium. State agencies receiving trust fund appropriations are responsible for administering approved projects and monitoring flow-through grants to other entities. Figure 1-1 shows the level of funding received by the various agencies for the 1991-1993 biennium.



As a condition of acceptance of trust fund appropriations, agencies must submit a work program and semiannual progress reports to LCMR. As provided in Minn. Stat. Section 116P.05, LCMR must approve the work program before an agency can spend trust fund appropriations.

In Chapters 2 through 4, we discuss our specific conclusions on the projects reviewed at the Department of Natural Resources, Board of Water and Soil Resources, and the Department of Education, respectively.

Environment and Natural Resources Trust Fund

Chapter 2. Department of Natural Resources Projects

Chapter Conclusions

We question certain expenditures for three of the four projects reviewed at the Department of Natural Resources. The department inappropriately charged \$44,091 in lump sum employee achievement awards to the groundwater sensitivity mapping project. In addition, the propriety of certain capital expenditures is questionable. Also, the department charged classified employee salaries to two projects in violation of statutory requirements.

The Department of Natural Resources had 16 trust fund projects funded from \$5,760,000 in appropriations and \$35,000 in grant receipts. As of December 31, 1992, expenditures for these projects totalled \$3,140,698. Three projects did not have any expenditures as of December 31, 1992. We tested expenditures for four projects administered by the department, with expenditures totaling \$1,716,017.

Groundwater Sensitivity Mapping

This appropriation is for groundwater sensitivity mapping, including contract drilling and geophysics, performing and interpreting aquifer tests, hydrologic monitoring, and collecting water level data.

Table 2-1
Groundwater Sensitivity Mapping
Financial Status as of December 31, 1992

Appropriation Amount	<u>\$600,000</u>
Expenditures:	
Classified Salaries	\$ 44,091
Unclassified Salaries	210,797
Part-time Salaries	16,074
Fixed Assets	51,483
Supplies	11,527
Other	<u>72,465</u>
Total Expenditures	<u>\$406,437</u>
Unexpended Appropriation	<u>\$193,563</u>

Source: Statewide Accounting System accounting reports and detailed transactions as of December 31, 1992.

Environment and Natural Resources Trust Fund

1. The Department of Natural Resources charged inappropriate salary expenditures to the trust fund project.

The department charged 34 employee lump sum achievement awards to the groundwater sensitivity mapping project, even though the affected staff did not work on the project. Individual awards, including related fringe benefits, ranged from \$1,145 to \$1,812. The awards, which totalled \$44,091, were for performance during fiscal year 1991. The department paid the awards in January 1992. The staff worked in the waters division but not on the trust fund project. The department paid the employees' regular salaries from the General Fund.

Recommendation

- *The Department of Natural Resources should reimburse the trust fund for the \$44,091 in inappropriate expenditures.*

2. The propriety of certain capital expenditures is questionable.

The Department of Natural Resources purchased two minivans, at a cost of \$25,605, and various computers, at a cost of \$25,879, from project funds. Although we believe that the department used the vehicles and equipment on project activities, we have various questions about the transactions. LCMR program guidelines and the work plans did not specifically address the allowability of capital expenditures for trust fund projects. Appropriate disposition of capital equipment at the project's completion is a concern. It is unclear whether equipment purchased with trust fund monies becomes the property of the department purchasing the equipment, or if the project can recover the remaining value of the assets from other sources.

In addition, we question whether the project obtained sufficient value from the user fees it paid to the department's fleet management program. As of December 31, 1992, the project spent over \$2,300 on fleet management fees for the two minivans for four months activity. Fleet management records show that for the period June 1992 through September 1993, the project paid \$11,200 in usage fees. Because the project had purchased its vehicles outright, it was in a position to benefit only from the maintenance services of the program, which amounted to approximately \$2,000 during the 16 month period. However, the fleet management fees are structured to recoup both capital and maintenance costs from vehicle users. It has been a cost effective method for the department to retain its vehicle fleet on a long-term basis. However, after purchasing its own vehicles, a short-term project, such as the ground water sensitivity monitoring, was not able to obtain full value from participating in the fleet management program.

The appropriate means of obtaining fixed assets is a concern for short term projects. There are various options, including purchasing or leasing needed equipment. Departments must determine the most cost efficient method of obtaining required assets. In addition, they must ensure that an individual project only incurs costs which represent its share of the asset's usage.

Environment and Natural Resources Trust Fund

Recommendation

- *The department should work with LCMR to determine an equitable share of capital costs financed with trust fund moneys.*

Environmental Education Program

The purpose of this project is to complete a long term plan for the development and coordination of environmental learning centers.

Table 2-2
Environmental Education Program
Financial Status as of December 31, 1992

Appropriation Amount	\$60,000
Expenditures:	
Classified Salaries	\$13,720
Part-time Salaries	24,183
Rent	6,342
Professional/Technical Services	6,000
Other	<u>2,392</u>
Total Expenditures	<u>\$52,637</u>
Unexpended Appropriation	<u>\$ 7,363</u>

Source: Statewide Accounting System accounting reports and detailed transactions as of December 31, 1992.

3. The department did not strictly follow statutory requirements relating to the employment status of staff paid from trust fund moneys.

The Department of Natural Resources used trust fund monies to pay three classified employees for work on the environmental education project, contrary to statutory requirements. The employees were regular full time departmental employees in the planning office. The department allocated salary charges of \$13,720 based on an estimate of time the employees spent on the project. The department transferred the salary charges from the General Fund, the regular funding source for these employees. The department used current staff to perform these duties rather than hiring new unclassified employees.

Environment and Natural Resources Trust Fund

Minn. Stat. Section 116P.09, Subd. 4, provides:

persons who are employed by a state agency to work on a project and are paid by an appropriation from the trust fund or Minnesota future resources fund are in the unclassified civil service, and their continued employment is contingent upon the availability of money from the appropriation. When the appropriation has been spent, their positions must be canceled and the approved complement of the agency reduced accordingly. Part-time employment of persons for a project is authorized.

The intent of this provision is to ensure that agencies do not have permanent classified employees on staff after a project has ended. Some agencies believe it may be more cost effective to have current staff work a portion of their time on trust fund projects rather than hiring new staff. The department believes the statutory provision applies only to new staff hired for the project and not to all staff charged to the appropriation.

Recommendations

- *The Department of Natural Resources should work with LCMR to modify statutory personnel requirements to provide more flexibility for part-time employment.*
- *The department should allocate payroll expenditures based on actual hours worked on individual projects.*

Minnesota County Biological Survey

The purpose of this project is to continue the biological survey in Minnesota counties. The survey began in 1987 in response to the need to determine the status of biological diversity in the state.

Table 2-3
Minnesota County Biological Survey
Financial Status as of December 31, 1992

Appropriation Amount	\$1,000,000
Expenditures:	
Classified Salaries	\$ 18,180
Unclassified Salaries	477,991
Other Payroll	22,087
Other	<u>64,111</u>
Total Expenditures	<u>\$582,369</u>
Unexpended Appropriation	<u>\$417,631</u>

Source: Statewide Accounting System accounting reports and detailed transactions as of December 31, 1992.

Environment and Natural Resources Trust Fund

4. The department did not strictly follow statutory requirements relating to the employment status of staff paid from trust fund moneys.

The department funded a portion of the cost of two classified employees from the trust fund project. The costs totalled \$18,180 and included 25 percent of the salary of a computer programmer and 50 percent of the salary of a botanist. As discussed previously, Minn. Stat. Section 116P.09, Subd. 4 provides that persons paid by an appropriation from the trust fund should be in the unclassified service. Again, the department wanted to use currently employed staff on the project rather than hire new unclassified employees for a short time period.

Recommendations

- *The Department of Natural Resources should work with LCMR to revise statutory personnel requirements to provide more flexibility for part-time employment.*
- *The department should allocate payroll expenditures based on actual hours worked on individual projects.*

Rails-to-Trails

The purpose of this project is to acquire and develop trails on unused railroad property in northern Minnesota.

Table 2-4
Rails-to-Trails
Financial Status as of December 31, 1992

Appropriation Amount	<u>\$1,000,000</u>
Expenditures:	
Land Purchase	650,000
Other	<u>24,574</u>
Total Expenditures	<u>\$ 674,574</u>
Unexpended Appropriation	<u>\$ 375,426</u>

Source: Statewide Accounting System accounting reports and detailed transactions as of December 31, 1992.

Our review of activity through December 31, 1992 showed that costs were in compliance with the budget plan.

Environment and Natural Resources Trust Fund

Chapter 3. Board of Water and Soil Resources Projects

Chapter Conclusions

We found problems with three of the six projects administered by the Board of Water and Soil Resources. The board did not adequately document the grantee selection process and did not monitor grantee expenditures for two projects. In addition, we questioned whether expenditures totaling \$46,756 complied with a project's objectives.

The Board of Water and Soil Resources received funding of \$2,060,000 for six trust fund projects for the 1991-1993 biennium. As of December 31, 1992, it had spent \$976,475 on these projects.

Well Sealing Cost Sharing Grants

This project provides grants to counties for sharing the cost of sealing wells. It accelerates work started under the Groundwater Protection Act of 1989.

Table 3-1
Well Sealing Cost Sharing Grants
Financial Status as of December 31, 1992

Appropriation Amount	\$750,000
Grant Expenditures	<u>665,000</u>
Unexpended Appropriation	<u>\$ 85,000</u>

Source: Statewide Accounting System accounting reports and detailed transactions as of December 31, 1992

5. The Board of Water and Soil Resources did not appropriately document the review process for project applications received after the initial review period.

The board awarded \$233,000 in grants without completing the required review process. The work plan provides that an interagency advisory group is to evaluate proposals. The committee met and selected first round projects totalling \$517,000. However, we found no evidence that the advisory committee reviewed second round project applications for three of the four

Environment and Natural Resources Trust Fund

counties tested. The committee decided not to meet as a group to evaluate these applications. Instead, the program coordinator forwarded copies of the applications to committee members. The coordinator said he received responses from the members and tried to put notes in the county file indicating member comments. However, we found no evidence of this review for three projects.

The advisory committee included representatives from the Board of Water and Soil Resources, Pollution Control Agency, Department of Natural Resources, Department of Health and the Minnesota Geological Society. Use of a committee provides more independence and impartiality in the selection process.

Recommendation

- *For future projects, the Board of Water and Soil Resources should document required advisory group reviews of all grant applications.*

6. The Board of Water and Soil Resources has not exercised adequate oversight of the well sealing project grants.

The board has not used effective cash management techniques in administering the well sealing project grants. During the audit period, the board disbursed \$665,000 to 37 counties. As provided in the project guidelines, it paid the full grant amount at the beginning of the projects, after the parties signed the grant agreements. The grant funds were available for up to two years from the effective date of the grant agreements. The board did not actively monitor the cash flow needs of these counties. By paying grant funds on an advance basis, the trust fund loses investment income on the monies. We think it would be more appropriate to provide funding on an as needed basis, at least for grants over a specified minimum amount.

Also, counties have not submitted required reports to the board. The grant agreements require each county to submit an annual status report, audit reports, and copies of sealed well reports filed by contractors. The board has a responsibility to followup on delinquent reports. In addition, staff should review the reports to ensure the projects are proceeding as anticipated, expenditures are appropriate, and grantees provide required match.

Recommendations

- *The Board of Water and Soil Resources should revise its cash management procedures for grant programs, making payments on an as needed basis.*
- *The board should ensure that grantees submit required reports on a timely basis.*

Environment and Natural Resources Trust Fund

Erosion Control Cost Sharing Grants

This project funds grants to share the cost of conservation practices to control erosion and protect water quality including water quality practices that divert water from sinkholes.

Table 3-2
Erosion Control Cost Sharing Grants
Financial Status as of December 31, 1992

Appropriation Amount	\$250,000
Expenditures:	
Grants	\$121,313
Other	<u>2,028</u>
Total Expenditures	<u>\$123,341</u>
Unexpended Appropriation	<u>\$126,659</u>

Source: Statewide Accounting System accounting reports and detailed transactions as of December 31, 1992.

7. The Board of Water and Soil Resources did not have appropriate project selection controls.

The Board of Water and Soil Resources did not follow a formal approval process for soil and water conservation district applications for the erosion control sinkhole project. Generally, one staff person approved the grants. The program coordinator forwarded copies of the applications to a panel of hydrologists for review. However, they did not respond back with comments. According to the work plan, the board was to use a panel of hydrologists to develop application criteria and screen and rank the accepted applications.

Recommendation

- *The Board of Water and Soil Resources should follow required procedures for review of project applications.*

Conservation Reserve Easements

The purpose of this project is to acquire perpetual easements with priority for wetland areas, to enhance wildlife habitat, control erosion and improve water quality.

Environment and Natural Resources Trust Fund

As of December 31, 1992, the board completed most paperwork for the easement acquisition, but it had not made any easement payments. The landowners may elect payment in one lump sum or up to four equal annual installments. Easement obligations totalled \$441,630.

Table 3-3
Conservation Reserve Easements
Financial Status as of December 31, 1992

Appropriation Amount	\$600,000
Expenditures:	
Unclassified Salaries	\$ 57,961
Legal Fees	46,756
Other	<u>1,525</u>
Total Expenditures	<u>\$106,242</u>
Unexpended Appropriation	<u>\$493,758</u>

Source: Statewide Accounting System accounting reports and detailed transactions as of December 31, 1992.

8. The propriety of certain costs charged to the conservation reserve easements project is questionable.

The Board of Water and Soil Resources paid \$46,756 in legal fees from the easements project although the work plan does not discuss this cost. The board entered into an agreement with the Office of the Attorney General for legal services. The board agreed to fund 75 percent of salary and fringe benefits for an attorney to assist in implementation of resource conservation programs, including specifically the Reinvest in Minnesota (RIM) program. The Department of Natural Resources agreed to pay the remaining 25 percent of these attorney costs.

The board allocated all of its share of the legal fees to the trust fund project even though the work at times also related to the Reinvest In Minnesota program, which receives funding from bond proceeds. Normally, when services benefit more than one program, costs should be allocated to the various funding sources.

The project work plan provided that trust fund monies for the 1991-1993 biennium would fund actual easement acquisitions (\$479,000 budget) and an easement programs coordinator (\$121,000 budget). The appropriation law and work plan do not discuss legal fees. In 1993, the legislature added a provision to the project's subsequent appropriation prohibiting administrative cost charges to the project.

Environment and Natural Resources Trust Fund

Recommendation

- *The Board of Water and Soil Resources should obtain approval from LCMR to charge legal fees to this project, or transfer the costs to another appropriate funding source.*

Easement Acquisition on Restored Lands

The purpose of this project is to contract with the U.S. Fish and Wildlife Service and the Izaak Walton League to acquire permanent easements on federally restored lands. The Fish and Wildlife Service and the League are to provide required match.

Table 3-4	
Easement Acquisition on Restored Lands	
Financial Status as of December 31, 1992	
Appropriation Amount	\$400,000
Expenditures	<u>0</u>
Unexpended Appropriation	<u>\$400,000</u>
Source:	Statewide Accounting System accounting reports and detailed transactions as of December 31, 1992

The board had made no expenditures as of December 31, 1992. However, it had written agreements with 19 landowners. Obligations totalled \$399,760. Expenditures could take up to four years to complete.

Cannon River Watershed Grants

This project is to provide research and demonstration grants to counties consistent with the comprehensive local water management program as part of the Cannon River watershed protection program.

Table 3-5	
Cannon River Watershed Grants	
Financial Status as of December 31, 1992	
Appropriation Amount	\$60,000
Grant Expenditures	<u>60,000</u>
Unliquidated Appropriation	<u>\$ 0</u>
Source:	Statewide Accounting System accounting reports and detailed transactions as of December 31, 1992.

Environment and Natural Resources Trust Fund

Our review of activity through December 31, 1992 showed that costs were in compliance with the budget plan.

River Basin Water Quality Monitoring

This is a Pollution Control Agency project to conduct assessments of non-point source pollution in the Minnesota River Basin. PCA granted a portion of the appropriation to the board. This portion funds a part time employee at the board who serves as project coordinator.

Table 3-6
River Basin Water Quality Monitoring
Financial Status as of December 31, 1992

Grant Receipts	\$ 32,600
Expenditures:	
Part-time Salaries	\$ 21,165
Other	<u>727</u>
Total Expenditures	<u>\$21,892</u>
Unexpended Grant Receipts	<u>\$10,708</u>

Source: Statewide Accounting System accounting reports and detailed transactions as of December 31, 1992.

Our review of activity through December 31, 1992 showed that costs were in compliance with the budget plan.

Environment and Natural Resources Trust Fund

Chapter 4. Department of Education Projects

Chapter Conclusions:

We have concerns about the two trust fund projects administered by the Department of Education. We believe the department did not exercise adequate oversight for the grant portion of the projects. In addition, we question whether selected expenditures complied with statutory and administrative guidelines for the two projects.

The Department of Education had two projects, incorporating several individual appropriations, for the 1991-1993 biennium. The Legislature allocated \$830,000 for the projects. As of December 31, 1992, the department had spent \$564,049.

Environmental Education Program

This project has several environmental education objectives, including development of a statewide environmental education plan. The statewide plan will integrate the plans, strategies, and policies of the Department of Education, post-secondary institutions, the Department of Natural Resources and other deliverers of environmental education.

Table 4-1
Environmental Education Program
Financial Status as of December 31, 1992

Appropriation Amount	<u>\$730,000</u>
Expenditures:	
Classified Salaries	\$ 19,461
Unclassified Salaries	69,110
Other Payroll	83,967
Professional Technical Services	37,236
Purchased Services	7,677
Grants	216,000
Other	<u>30,598</u>
Total Expenditures	<u>\$464,049</u>
Unexpended Appropriation	<u>\$265,951</u>

Source: Statewide Accounting System accounting reports and detailed transactions as of December 31, 1992.

Environment and Natural Resources Trust Fund

9. The Department of Education has not exercised adequate oversight for environmental education grants to nonstate entities.

The Department of Education has not been monitoring the pass-through grants to the Audubon Center (\$85,000 appropriation; \$81,000 expenditures), the Community Education Association (\$30,000 appropriation; \$25,000 expenditures) and the pilot school districts who are developing new curriculum (\$110,000 expenditures). The department paid funds to the grantees based on staggered payment dates established in the grant agreement. However, the payments were not based on costs incurred. Once the department paid the grant funds, it did not monitor whether expenditures were appropriate. It did not require grantees to submit expenditure status reports. The grantees were required to submit semiannual project status reports directly to LCMR. However, we believe the department, as recipient of the appropriation, has a responsibility to monitor grantee performance. To help ensure that projects are progressing as anticipated, the department should require grantees to periodically report on expenditures. Staff should review the reports for compliance with established budgetary requirements and program guidelines.

Recommendation

- *The Department of Education should establish a process to review grantee expenditures for propriety.*

10. Selected project expenditures did not comply with statutory or administrative procedures.

Contrary to statutory provisions, the department partially funded a classified employee from the environmental education plan project. The department charged one-third of an administrative secretary's salary to the trust fund account. Minn. Stat. Section 116P.09, Subd. 4 provides that persons paid by an appropriation from the trust fund should be in the unclassified service. Rather than hire another employee to perform secretarial duties, the department funded a portion of a current classified employee's salary from the project.

Also, the department exceeded contract limits by \$405 when paying a consultant for travel expenses. The department's spending plan allows honorarium payments not to exceed \$5,000 per vendor, including expenses. The department paid a consultant for actual expenses, which exceeded the honorarium contract limit. The department subsequently hired the consultant as project manager.

Recommendations

- *The Department of Education should work with LCMR to modify statutory personnel requirements to provide more flexibility for part-time employment.*
- *The department should ensure all payments comply with contract provisions.*

Environment and Natural Resources Trust Fund

Video Education Research and Demonstration Project

The purpose of this project is to develop a video education demonstration project and a model for a statewide video environmental education communication network. As provided in the appropriation, the department granted project funds to Twin Cities Public Television.

Table 4-2 Video Education Research and Demonstration Project Financial Status as of December 31, 1992	
Appropriation Amount	\$100,000
Grant Expenditures	(100,000)
Unexpended Appropriation	\$ 0
Source:	Statewide Accounting System accounting reports and detailed transactions as of December 31, 1992.

11. The Department of Education did not adequately monitor the grant to Twin Cities Public Television.

The department has not established appropriate cash management and expenditure control procedures for this grant. For example, the department paid the grantee \$100,000 on August 15, 1991. However, the grantee reported expenses totaling only \$27,320 as of December 16, 1991. This is poor cash management for the state. The state could invest excess trust fund monies until needed for expenditure by the grantee.

The grant agreement states that Twin Cities Public Television will report to the department. The grantee submitted a financial report and summary of progress in December, 1991. The report states that the grantee will submit quarterly reports. However, the department received no further reports.

Recommendations

- *The Department of Education should revise its cash management procedures for grant programs, making payments on an as needed basis.*
- *The department should ensure that grantees submit appropriate expenditure reports on a timely basis.*

Environment and Natural Resources Trust Fund

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STATE OF
MINNESOTA

DEPARTMENT OF NATURAL RESOURCES

500 LAFAYETTE ROAD, ST. PAUL, MINNESOTA 55155-4037

OFFICE OF THE
COMMISSIONER

DNR INFORMATION
(612) 296-6157

November 8, 1993

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

Dear Mr. Nobles:

The purpose of this letter is to respond to the audit report of the Environmental and Natural Resources' Trust Fund programs administered by the Department of Natural Resources' for the period July 1, 1991 through December 30, 1992.

GROUNDWATER SENSITIVITY MAPPING

Salary Expenditures

The Division of Waters purchased a seismograph, from general operations funding, before project monies were available. By purchasing this equipment early they were able to take full advantage of the first field season of this project. Achievement awards that would have been paid from general operations were paid from the project monies.

This expenditure may have been inappropriate from an accounting standpoint and this is not the usual way we do business. However, the decision to accelerate the project was, we believe, appropriate from a resource management perspective in that it directly benefitted trust fund projects. In fact significant general operations monies have been used to support this project.

Equipment Purchases

As stated, the vehicles were purchased and assessed a monthly fleet rate. In accordance with fleet policy, any expansion to the fleet must be initially financed by the unit; the monthly rates are intended to cover the replacement of the vehicles. We concur that handling equipment purchases for short term projects presents special problems. However, given the magnitude of our operations it is unrealistic to maintain multiple administrative "infrastructures".

James Nobles
Legislative Auditor
November 8, 1993
Page 2

Additionally, we do not view the Groundwater Sensitivity program as short term; this two year appropriation represents a segment of a ten year project. Viewed in the long term context, the equipment purchases are entirely appropriate.

ENVIRONMENTAL EDUCATION PROGRAM

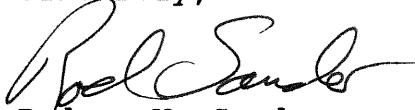
The salary costs of several current staff were allocated to this project. This practice occurs where it is more efficient and cost effective to use current employees rather than hire new staff. The audit states that the intent of the statute is to ensure that staff is hired only for the duration of the project funding. The charging of salary costs of existing employees does not violate this principal.

MINNESOTA COUNTY BIOLOGICAL SURVEY

Again, we charged salary costs of existing employees rather than hiring new unclassified employees for a short term project. This practice is most cost efficient and does not violate the intent of the statute.

It is apparent that our interpretation of the statute on this matter differs and therefore it may be helpful to get it clarified.

Sincerely,



Rodney W. Sando
Commissioner

cc: Gene Gere
Al Yozamp
John Bouthilet
Kent Lokkesmoe
Bill Becker
Dick Hassinger



November 10, 1993

Mr. James Nobles, Legislative Auditor
Office of Legislative Auditor
Centennial Office Building
St. Paul, MN 55155

Dear Mr. Nobles:

We have received the audit of the six projects we administered under the Environment and Natural Resource Trust Fund for FY92 and FY93. Thank you for the opportunity to comment on those findings.

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Recommendation #5 - The BWSR did not appropriately document the review process for project applications received after the initial review period.

Recommendations

- *For future projects, the BWSR should document required advisory group reviews of all grant applications.*

Response:

- The advisory group was heavily involved in evaluating applications. Meetings were not formal and often were conducted over the phone with individual members or the group on a conference call basis. Recommendations and evaluations of the advisory group was utilized. In the future, we will attempt to formalize these meetings, or at a minimum, document their finding and recommendations.

Recommendation # 6 - The BWSR has not exercised adequate oversight of the well sealing project grants.

Recommendations

- *The BWSR should revise its cash management procedures for grant programs making payment on an as needed basis.*
- *The BWSR should ensure that grantees submit required reports on a timely basis.*

Response:

- The technique of grant advance payments versus reimbursement payments continues to be a point of debate. In most cases, one method is more appropriate than the other. One of the goals of BWSR is to empower LGU's (Local Governmental Units) to act on environmental concerns, rather than react to them. One proven method of doing that is to get the resources (cash and technical support) to them as soon as possible. Working on a reimbursement basis would greatly increase costs in the administrative area.



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- We made great efforts to ensure timely reporting from the counties. In fact, 91% of the recipients met the requirements. Only 4 of 45 the counties were delinquent at the time of this audit. One of the projects started late and had nothing to report at the time of the audit. We will continue to monitor those projects outstanding and continue sending reminder letters as we have done in the past.

Recommendation #7 - The BWSR did not have appropriate project selection controls.

Recommendations

- *The BWSR should follow required procedures for review of project applications.*

Response:

- Basically, this recommendation and our response are stated under #5. We did follow the work plan and a panel of hydrologists was utilized to develop criteria and screen and rank applications. While there was only one formal meeting of the panel, there were many informal meetings and discussions. The BWSR did approve the initial allocations and not one staff person as stated. In the future, we will attempt to formalize and document our procedures and findings in an acceptable form.

Recommendation #8 - The propriety of certain costs charged to the conservation reserve easement project is questionable.

Recommendations

- *The BWSR should obtain approval from LCMR to charge legal fees to this project, or transfer the costs to another appropriate funding source.*

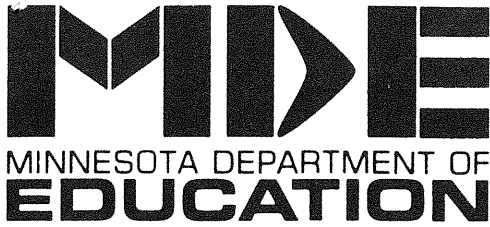
Response:

- While it is true the approved work plan did not list legal fees, it did not exclude them either. There are many components of administrative costs in acquiring RIM Easements. Professional Services necessary include attorneys, Realty Specialists, Accounting Personnel and Engineers. We did not charge any of these salary costs to this particular RIM project. They were paid from general and bond fund sources. While all of the legal fees were charged here, the total chargeable administrative costs would have been much greater. In the future, work plans will be more explicit in chargeable costs and we will attempt to allocate all costs to all components of a program.

Thank you again for the opportunity to respond to your audit findings. We look forward to audits of all our program areas to ensure that legislative and agency goals are being achieved in an acceptable, efficient manner. If you have any further questions, contact me at your convenience.

Sincerely,


Ron Harnack
Executive Director



Capitol Square 550 Cedar Street
Saint Paul, Minnesota 55101 612/296-6104

November 9, 1993

Mr. James Nobles
Legislative Auditor
Office of the Legislative Auditor
Centennial Building
St. Paul, MN 55155

Dear Mr. Nobles:

Enclosed is the Department of Education's written response to the legislative audit of the Environmental and Natural Resources Trust Fund projects administered by the Department of Education for the period July 1, 1991 through June 30, 1992.

If you have any questions regarding the contents of this response, please contact me at 296-2358.

Sincerely,

A handwritten signature in cursive script, appearing to read 'Linda Powell', is written over the typed name. To the left of the signature is a small, stylized 'for' written in cursive.

for Linda Powell
Commissioner
Minnesota Department of Education

LP:MP:do

Enclosure



**Minnesota Department of Education's Response
to the
Legislative Audit of Environmental and Natural Resources
Trust Fund Project**

Response to #9. The Department of Education has not exercised adequate oversight for environmental education grants to nonstate entities.

- a. At the onset of these projects in July 1991, the Department's pass through grants manager and two other Department administrators were directed by the LCMR staff that the Department of Education was to provide administrative pass-through services to the grantees for the LCMR staff. Department staff were directly told they were not to act as monitors and/or enforcers. Department staff followed these directions.
- b. According to the directions from the LCMR Approved Workplan, the manager required the .5a grant projects to submit a written financial report and summary of progress every six months. Those reports were combined (State Plan, Model Curriculum, DNR Study, Community Education and Audubon Center) into a single report format as specified by LCMR staff and submitted to their offices.

In addition, during the period July 1, 1991 and June 30, 1992, the group of five project managers and the Department's grants manager met quarterly in three separate meetings of three to four hours with LCMR staff present to report on project progress as well as to assure that the various projects efforts were able to integrate into the state plan project.

The four additional grants to which the Department provided pass through services were instructed by the LCMR staff to submit their project progress reports directly to their offices.

- c. The Department of Education disagrees with the auditor's report statement that the pilot sites were "not monitored". From January, 1991 through May and in July. The pilot site teams met monthly for a day with the Department's project manager to report progress, receive specific training in curriculum and assessment, and to discuss concerns, issues, etc. Further, each site was directed to provide a six-month progress report to the Department. Finally, an outside evaluator conducted on-location evaluations at each site and wrote a report to the Department. During the last six months of the project, the project manager made site visits, conducted a two-day site meeting and compiled and published a curriculum model from the pilot sites' work. This was the scope of the "monitoring" the Department promised to do in its approved work plan.

- d. Finally, the Department of Education regularly applies a process to review grantee expenditures for propriety and serves as a monitor when required to do so.

Response to #10. Selected project expenditures did not comply with statutory or administrative procedures.

- a. The Department of Education agrees that we should work with the LCMR to modify statutory personnel requirements to provide more flexibility for part-time employment.
- b. A consultant's travel expenses exceeded the honorarium limits by \$405 because of direction from the Office of Environmental Education, Advisory Board to conduct additional meetings around the state. When submitting these expenditures for payment in December, the manager included an acceptable written justification for the additional cost. As a result of the consultant's work on this project, the consultant was hired as a project manager the next month and continued in that role until June 30, 1993.

Response to #11. The Department of Education did not adequately monitor the grant to Twin Cities Public Television.

- a. The Department of Education employs cash management procedures for all of its grants programs, making payments based on evidence of results as specified by the grant agreement. However, in this round of LCMR grants, Department staff was instructed by the LCMR staff that we were a pass-through agency, not a monitoring and enforcing agency. In serving as a pass-through agency for LCMR projects, the Department will work directly with LCMR staff to clarify the expectations of providing pass-through services to ensure fiscal accountability.
- b. Of the nine LCMR projects managed by the Department of Education, four projects including Twin Cities Public Television sent required progress reports directly to LCMR offices. We received no feedback on any of these reports.