

**ENVIRONMENT AND NATURAL RESOURCES
TRUST FUND**

SELECTED SCOPE FINANCIAL AUDIT

FOR THE PERIOD JULY 1, 1991 - FEBRUARY 28, 1994

SEPTEMBER 1994

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

94-48

ENVIRONMENT AND NATURAL RESOURCES TRUST FUND

SELECTED SCOPE FINANCIAL AUDIT FOR THE PERIOD JULY 1, 1991 - FEBRUARY 28, 1994

Public Release Date: September 14, 1994

No. 94-48

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 February 28, 1994, the agencies had spent \$13,734,398 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 Board of Water and Soil Resources, the Department of Natural Resources, the Department of Education, and the Department of Administration.

♦ *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 monitor close out of the well sealing project grants. In addition, the board did not have timely written commitments from some landowners for two easement projects.

♦ *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 had concerns on three of the eight projects we reviewed at DNR. The department purchased a large amount of equipment at the end of one project. In addition, the department's accounting procedures for one project's required match needed improvement. Also, the department did not exercise adequate oversight for one project.

♦ *Department of Education Projects*

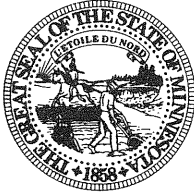
The Department of Education (DOE) had two projects funded from appropriations totaling \$830,000. We question the department's allocation of per diem to one project.

♦ *Department of Administration Projects*

The Department of Administration had two projects funded from \$2,100,000 in appropriations. We reviewed one of the projects and found that costs were in compliance with the budget plan.

Contact the Financial Audit Division for additional information.

296-1730



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JAMES R. NOBLES, LEGISLATIVE AUDITOR

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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

Ms. Debra Rae Anderson, Commissioner
Department of Administration

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 February 28, 1994. In November 1993, we issued a separate report on an audit of 12 trust fund projects for the period July 1, 1991 through December 31, 1992. This report incorporates the results of the prior audit testing. Chapter 1 provides a brief description of the Environment and Natural Resources Trust Fund and our audit scope. Chapters 2 through 5 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

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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 Board of Water and Soil Resources, the Department of Natural Resources, the Department of Education and the Department of Administration. 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 Board of Water and Soil Resources, the Department of Natural Resources, the Department of Education and the Department of Administration.

Management Responsibilities

The management of the Board of Water and Soil Resources, the Department of Natural Resources, the Department of Education and the Department of Administration are responsible for establishing and maintaining internal control structures. 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.

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Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Conclusions

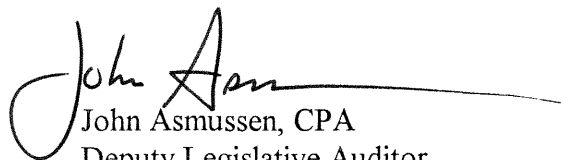
Our review of selected project expenditures identified some areas of concern relating to agency project administration. We believe additional statutory or procedural guidance may be necessary to clarify certain fiscal requirements, such as the time frame during which project appropriations may be expended. We found that for three projects, commitments were finalized or purchased equipment was received after the end of the appropriation period. We also question the allocation of certain costs to trust fund projects. In addition, departments did not adequately monitor flow-through projects. We believe that 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 Chapter 2 through 5.

This report is intended for the information of the Legislative Audit Commission and management of the Legislative Commission on Minnesota Resources, the Board of Water and Soil Resources, the Department of Natural Resources, the Department of Education, and the Department of Administration. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 14, 1994.

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



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: April 29, 1994

Report Signed On: September 7, 1994

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
Geniene Herrlich	Auditor

Exit Conferences

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

Board of Water and Soil Resources
Department of Natural Resources
Department of Education
Department of Administration

Environmental and Natural Resources Trust Fund

Chapter 1. Introduction

The Environment and Natural Resources Trust Fund was established by constitutional amendment in 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 moneys 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.

Note: Table 1-3 shows the additional revenue collected during fiscal years 1990 through 1993 and available for expenditure in accordance with these guidelines.

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

Environmental 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 1993.

Table 1-2 Environment and Natural Resources Trust Fund Trust Fund Corpus Summary of Financial Activity Four Years Ended June 30, 1993				
	Year Ended June 30			
	1990	1991	1992	1993
Beginning Fund Balance	\$ 0	\$ 2,734,734	\$22,799,621	\$40,291,056
Revenue:				
Lottery Proceeds	\$2,734,434	\$20,064,082	\$17,491,835	19,429,227
Gifts and Donations	300	805	3,602	0
Total	<u>\$2,734,734</u>	<u>\$20,064,887</u>	<u>\$17,495,437</u>	<u>19,429,227</u>
Ending Fund Balance	<u>\$2,734,734</u>	<u>\$22,799,621</u>	<u>\$40,291,056</u>	<u>\$59,720,283</u>

Note: 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.

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

Environmental and Natural Resources Trust Fund

Table 1-3
Environment and Natural Resources Trust Fund
Expendable Trust Fund Portion
Summary of Financial Activity
Four Years Ended June 30, 1993

	Year Ended June 30			
	1990	1991	1992	1993
Beginning Fund Balance	\$ 0	\$ 911,505	\$ 8,840,055	\$10,802,997
Revenue:				
Lottery Proceeds	\$911,478	\$6,688,027	\$ 4,372,058	3,428,687
Investment Income	27	1,240,253	2,611,161	3,477,179
Gifts and Donations	0	270	901	0
Total Revenue	<u>\$911,505</u>	<u>\$7,928,550</u>	<u>\$ 6,984,120</u>	<u>\$ 6,905,866</u>
Expenditures:				
Current Expenditures			\$ 2,508,700	\$ 5,650,461
Capital Outlay			699,929	323,362
Grants			1,812,549	1,803,534
Total Expenditures			<u>\$ 5,021,178</u>	<u>\$ 7,777,357</u>
Ending Fund Balance	<u>\$911,505</u>	<u>\$8,840,055</u>	<u>\$10,802,997</u>	<u>\$ 9,931,506</u>

Note: 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.

During our annual statewide audit, we verified the propriety of revenue deposited to the trust fund. We performed tests of investment income at the State Board of Investment. We also verified 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 fiscal years 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.

Biennially, state agencies and other entities submit proposed projects to LCMR for review and, if approved, inclusion in the state's budget plan. The Legislature appropriates funds to state agencies for two-year projects based on LCMR recommendations. A peer review panel reviews all research proposals before they receive an appropriation from the trust fund. In addition to the trust fund, environmental projects may be funded from the Minnesota Future Resources Fund or federal oil overcharge funds.

Environmental and Natural Resources Trust Fund

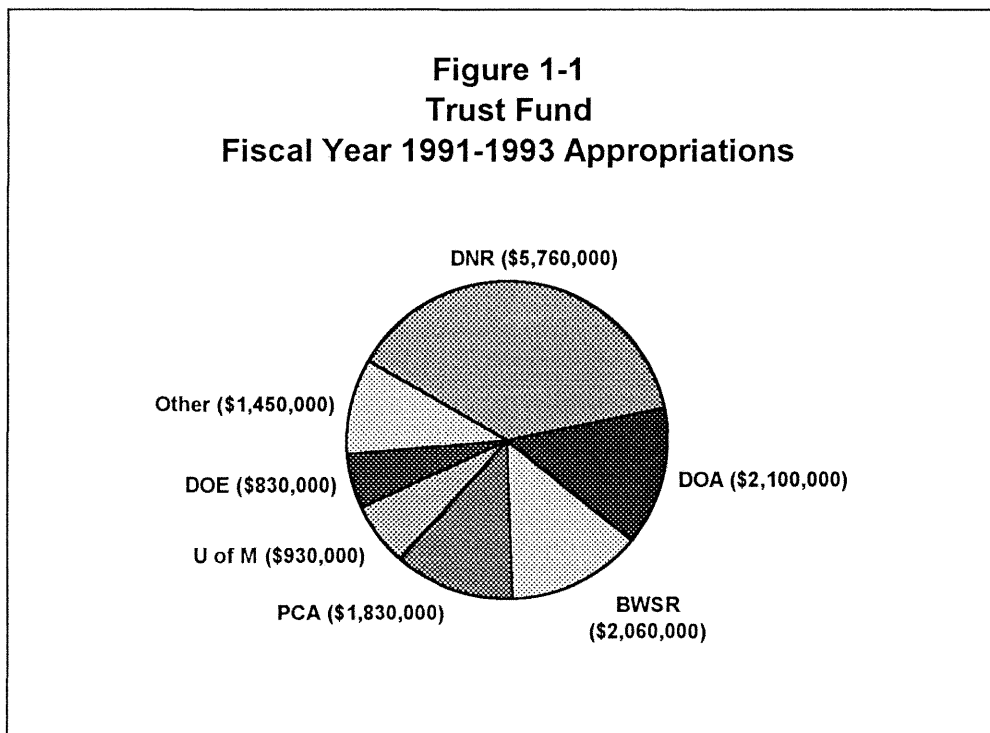
The Legislature authorized the first appropriations from the trust fund in the 1991 legislative session. The appropriations funded projects scheduled for the period July 1991 through June 1993. Table 1-4 shows the financial status of the trust fund at February 28, 1994.

Table 1-4
Environment and Natural Resources Trust Fund
Summary of Project Financial Activity
July 1, 1991 - February 28, 1994

Project Appropriations	\$14,960,000
Expenditures through June 30, 1993	12,798,535
Expenditures from July 1, 1993 through February 28, 1994	935,863
Canceled Appropriations	<u>209,195</u>
Unexpended Balance	<u>\$ 1,016,407</u>

Source: Statewide Accounting System accounting records and detailed transactions as of February 28, 1994.

We examined all financial activity from July 1, 1991, through February 28, 1994, 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 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.

Environmental and Natural Resources Trust Fund

In Chapters 2 through 5, we discuss our specific conclusions on the projects reviewed at the Board of Water and Soil Resources, the Department of Natural Resources, the Department of Education and the Department of Administration.

Environmental and Natural Resources Trust Fund

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Environmental and Natural Resources Trust Fund

Chapter 2. Board of Water and Soil Resources

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 monitor close out of the well sealing project grants. It did not promptly recover \$15,010 that Dakota County had to return to the trust fund. In addition, it did not have firm commitments from many landowners on two projects before it encumbered the funds in the Statewide Accounting System.

The Board of Water and Soil Resources (BWSR) received funding of \$2,060,000 for six trust fund projects for the 1991-1993 biennium. As of February 28, 1994, it had spent \$1,531,268 on these projects.

Well Sealing Cost Sharing Grants

This project provided grants to counties to share in the cost of sealing wells. It accelerated work that was started under the Groundwork Protection Act of 1989.

Table 2-1
Well Sealing Cost Share Grant
Financial Status as of February 28, 1994

Appropriation Amount	\$750,000
Grant Expenditures	<u>750,000</u>
Unexpended Appropriation	<u>\$ 0</u>

Note: As discussed in finding 1, there is a receivable of \$15,010 due from Dakota County for unexpended grant funds. Additional amounts may be due from other counties which have unobligated funds.

Source: Statewide Accounting System accounting reports and detailed transactions as of February 28, 1994.

In our November 1993 audit of this project we questioned BWSR's process for review of certain project applications. In addition, we concluded that BWSR had not exercised adequate oversight of the well sealing project grants. Our review of activity through February 28, 1994 showed that, except for the issues noted in the November 1993 audit and in finding 1 below, costs were in compliance with the budget plan.

Environmental and Natural Resources Trust Fund

1. The Board of Water and Soil Resources did not adequately monitor close out of the well sealing project grants.

The Board of Water and Soil Resources did not monitor the timely receipt of unused funds from grantee counties. BWSR has not followed up with counties to ensure that they return unobligated funds at the end of the grant period. The grant agreements require that each county return any remaining funds within two months after the expiration of the grant agreement. We noted one instance where a county was holding unobligated funds, which it should have returned to the state. Dakota County submitted the required reports and requested to keep the funds for other well sealing projects. BWSR staff intended to request the funds back from Dakota County but had not done so at the time of our review. Instead, they allowed Dakota County to retain \$15,010 beyond March 15, 1994, the date for return of funds specified in the contract. According to board records, there are also 38 other counties that had unexpended funds totaling \$232,000, as of March 1994. A portion of the unexpended funds may also be due back to the trust fund.

Recommendations

- *The Board of Water and Soil Resources should recover from Dakota County the \$15,010 of unexpended project funds.*
- *The board should review the financial status of all grants to ensure that grantees return unobligated moneys to the state in a timely manner.*

Easement Acquisition on Restored Wetlands

The purpose of this project was 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 were to provide the required match.

Table 2-2
Easement Acquisition on Restored Wetlands
Financial Status as of February 28, 1994

Appropriation Amount	\$400,000
Expenditures	
Perpetual Easements	\$ 62,058
Other	17,961
Total Expenditures	<u>\$ 80,019</u>
Future Commitments - Note 1	
10 signed agreements at June 30, 1993	62,189
9 unsigned agreements at June 30, 1993	235,093
1 unsigned agreement package not sent out timely	22,439
Total Future Commitments	<u>\$319,721</u>
Canceled Appropriation	<u>\$ 260</u>

Note 1: Landowners may elect to receive a lump sum easement payment or four equal annual installment payments. Therefore, the board may be disbursing these funds for up to four years.

Source: Statewide Accounting System accounting reports and detailed transactions as of February 28, 1994.

Environmental and Natural Resources Trust Fund

Our review of activity through February 28, 1994 showed that, except for the issue noted in finding 2 below, costs were in compliance with the budget plan.

2. The board did not have written commitments from 10 landowners in a timely manner.

We question the board's practice for encumbering funds due to the timing of obligations and the length of time appropriations are available for expenditure. The easement process takes an extended period of time to complete. Once approved, the board may make easement payments over a four year period. However, the legislature appropriates, and the board encumbers, moneys for the entire payment at the beginning of the process.

The board did not have signed agreements at the end of the 1991-1993 biennium with 10 of the 20 landowners who eventually will receive easement payments. However, as of June 30, 1993, staff encumbered \$257,531 in the statewide accounting system (SWA) for these easement payments. The appropriated funds would have canceled if the amounts were not encumbered. We think the board did not complete these contracts in a timely manner. The board had started the contracting process with each of the 10 landowners. In May and June 1993 it sent out nine agreement packages to the landowners for signature. They received the signed agreements in July 1993 through February 1994. The board did not send out the other landowner agreement package until April 1994. We question the board's authority to encumber funds for this agreement since the formal offer to purchase an easement was made after year end.

Recommendations

- *The board should work with LCMR to establish guidelines for the timing of easement encumbrances and payments.*
- *The board should promptly complete contracts with landowners.*
- *The board should seek LCMR approval for the expenditures relating to the easement agreement sent out after the project end date.*

Conservation Reserve Easements

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

Environmental and Natural Resources Trust Fund

Table 2-3
Conservation Reserve Easements
Financial Status as of February 28, 1994

Appropriation Amount	\$600,000
Expenditures:	
Unclassified Salaries BWSR employees	65,201
Unclassified Salaries - AG Representative	54,298
Perpetual Easements	228,808
Other	<u>11,061</u>
Total Expenditures	<u>\$359,368</u>
Future Commitments:	
16 signed agreements at June 30, 1993	115,710
5 unsigned agreements at June 30, 1993	<u>42,877</u>
Total Future Commitments	<u>\$158,587</u>
Canceled Appropriation	<u>82,045</u>

Source: Statewide Accounting System accounting reports and detailed transactions as of February 28, 1994.

In our November 1993 audit of this project, we questioned whether legal fees charged to the project complied with the work plan. LCMR did not request repayment of the amounts in question. During our current review, we noted that the board charged \$7,542 in additional legal fees to the project. Our review of activity through February 28, 1994 showed that, except for the issues noted in the November 1993 audit and in finding 3 below, costs were in compliance with the budget plan.

3. The board did not have written commitments from five landowners when it encumbered moneys for easement payments.

We have similar concerns about the timing of easement encumbrances and payments for this project, as was discussed for Easement Acquisition on Restored Wetlands. The board did not have signed agreements with 5 of the 21 landowners at the end of the 1991-1993 biennium. The board had started the process with each of the five landowners. It sent two of the agreement packages out for signature in May 1992. The other three were sent out in January and February 1993. The Board received the signed agreements back from August 1993 through March 1994. At the time of our review, they have not paid out any funds to these five landowners. The agreements with these five landowners totaled \$42,877.

Recommendation

- *The board should work with LCMR to establish guidelines for the timing of easement encumbrances and payments.*

Environmental and Natural Resources Trust Fund

Erosion Control Cost Sharing Grants

This project funded 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 2-4
Erosion Control Cost Sharing Grants
Financial Status as of February 28, 1994

Appropriation Amount	\$250,000
Expenditures:	
Grants	229,300
Other	<u>20,700</u>
Total Expenditures	<u>\$249,469</u>
Canceled Appropriation	<u>\$ 531</u>

Source: Statewide Accounting System accounting reports and detailed transactions as of February 28, 1994.

In our November 1993 audit of this project, we questioned whether the board had appropriate project selection controls. Our review of activity through February 28, 1994 showed that, except for issues noted in the November 1993 audit, costs were in compliance with the budget plan.

Cannon River Watershed Grants

This purpose of this project was 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 2-5
Cannon River Watershed Grant
Financial Status as of February 28, 1994

Appropriation Amount	\$60,000
Grant Expenditures	<u>60,000</u>
Unexpended Appropriation	<u>\$ 0</u>

Source: Statewide Accounting System accounting reports and detailed transactions as of February 28, 1994.

Our review of activity through February 28, 1994, showed that costs were in compliance with the budget plan.

Environmental and Natural Resources Trust Fund

River Basin Water Quality Monitoring

This was a Pollution Control Agency (PCA) 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 funded a part time employee at the board who served as project coordinator.

Table 2-6
River Basin Water Quality Monitoring
Financial Status as of February 28, 1994

Grant Receipts	\$32,600
Expenditures:	
Part-time Salaries	\$31,685
Other	<u>727</u>
Total Expenditures	<u>\$32,412</u>
Canceled Grant Receipts	<u>\$ 188</u>

Source: Statewide Accounting System accounting reports and detailed transactions as of February 28, 1994.

Our review of activity through February 28, 1994, showed that costs were in compliance with the budget plan.

Environmental and Natural Resources Trust Fund

Chapter 3. Department of Natural Resources

Chapter Conclusions

We had concerns on three of the eight projects reviewed at the Department of Natural Resources. We question certain expenditures for one of the projects reviewed. The department purchased a large amount of equipment at the end of the project. In addition, the department's accounting procedures for one project's required match needed improvement. The department also did not exercise adequate oversight for one project.

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 February 28, 1994, expenditures for these projects totaled \$5,446,365. We tested expenditures for eight projects administered by the department, with expenditures totaling \$4,746,045.

County Geological Atlas and Groundwater Sensitivity Mapping (Department of Natural Resources Portion)

The purpose of this project is to expand production of county geologic atlases and create a new atlas services office.

Table 3-1
County Geological Atlas and Groundwater Sensitivity Mapping
Financial Status as of February 28, 1994

Appropriation	\$600,000
Expenditures:	
Unclassified Salaries	\$333,671
Part-time Salaries	20,564
Professional Technical Services	44,151
Travel	15,410
Fixed Assets	56,436
Other	85,665
Total Expenditures	<u>\$555,897</u>
Canceled Appropriation	<u>\$ 44,103</u>

Source: Statewide Accounting System accounting reports and detailed transactions as of February 28, 1994.

In our November 1993 audit of this project, we questioned the propriety of certain lump sum achievements awards. The department subsequently reimbursed the trust fund \$44,091 for the inappropriate expenditures. We also questioned whether the allocation of \$51,484 for certain capital asset costs to the trust fund was appropriate. Program guidelines do not address the allowability of charges for capital equipment to trust fund projects. During the current audit, we found that the department charged \$4,554 to the project for computer equipment for a Local Area

Environmental and Natural Resources Trust Fund

Network (LAN) hook-up and a computer upgrade. The department allocated the equipment cost to this project and other funding sources. Our review of activity through February 28, 1994 showed that except for the issues noted above, costs were in compliance with the budget plan.

Minnesota County Biological Survey

The purpose of this project is to continue the biological survey in Minnesota counties.

Table 3-2
Minnesota County Biological Survey
Financial Status as of February 28, 1994

Appropriation	\$1,000,000
Expenditures:	
Classified Salaries	\$ 59,292
Unclassified Salaries	706,749
Other Payroll	54,708
Computer Equipment	31,962
Professional Technical Services	28,275
Purchased Services	15,609
Travel	11,426
Other	86,438
Total Expenditures	<u>\$994,459</u>
Canceled Appropriation	<u>\$ 1,557</u>
Unexpended Appropriation	<u>\$ 3,984</u>

Source: Statewide Accounting System accounting reports and detailed transactions as of February 28, 1994.

In our November 1993 audit of this project, we questioned whether certain salary expenditures complied with statutory requirements. Our review of activity through February 28, 1994 showed that, except for the issues noted in the November 1993 audit and in finding 4 below, costs were in compliance with the budget plan.

4. The propriety of certain capital expenditures is questionable.

The department spent \$31,962 on a computer and other equipment after the project had ended. The project appropriation was available for the 1991-1993 biennium and unobligated funds would cancel as of June 30, 1993. The department received two navigation instruments and a computer on June 28 and 30, 1993, respectively. It received ten items in July, August, and September 1993. Table 3-3 details the items and the dates received. The department could not have used items received this late on the current project. This is a continuing project, and the department received an additional trust fund appropriation in the subsequent biennium. The department asserted that the equipment would be used in the subsequent year's project.

Environmental and Natural Resources Trust Fund

Table 3-3
Equipment Purchases After Year End

<u>Date Received</u>	<u>Item</u>
June 28, 1993	2 navigation instruments
June 30, 1993	Computer
July 29, 1993	Navigation instrument
August 16, 1993	2 stereoscopes
September 7, 1993	5 microscopes and attachments
September 15, 1993	Illuminator

Recommendation

- *The department should work with LCMR to determine the propriety of capital equipment charges to the project.*

Effects of Changes in the Forest Ecosystem on the Biodiversity of Minnesota's Northern Forest Birds

Table 3-4
Effects of Changes in the Forest Ecosystem on the
Biodiversity of Minnesota's Northern Forest Birds
Financial Status as of February 28, 1994

Appropriation	\$300,000
Expenditures:	
Professional Technical Services	\$220,000
Grants	<u>80,000</u>
Total Expenditures	<u>\$300,000</u>
Canceled Appropriation	<u>\$ 0</u>

Note 1: The appropriation required \$200,000 in matching funds.

Source: Statewide Accounting System accounting reports and detailed transactions as of February 28, 1994.

Our review of activity through February 28, 1994, showed that costs were in compliance with the budget plan. In addition, the department received the required matching funds. However, we believe procedures to account for match could be improved, as discussed in finding 5.

5. The Department of Natural Resources did not properly account for match funds.

The department records match funds in several accounts outside of the trust fund. At the time of our review, it deposited the match funds in at least seven separate accounts. This makes it very

Environmental and Natural Resources Trust Fund

difficult to track the funds and may allow the funds to also be used as match for other projects. The match funds that are committed to a project should be more clearly accounted for to ensure they are used for the specific project.

Recommendation

- *The Department of Natural Resources should simplify the accounting practices for match funds and ensure they are used for the purpose of the project.*

South Central MN Surface Water Resources Atlases and Database

This appropriation was for the development of surface hydrology atlases and data base in both hard and electronic formats for the 13 counties of south central Minnesota.

Table 3-5

**South Central MN Surface Water Resources Atlases and Database
Financial Status as of February 28, 1994**

Appropriation Amount	\$300,000
Grant Expenditures	<u>\$299,972</u>
Canceled Appropriation	<u>\$ 28</u>

Source: Statewide Accounting System accounting reports and detailed transactions as of February 28, 1994.

Our review of activity through February 18, 1994 showed that, except for the issue discussed in finding 6, costs were in compliance with the budget plan.

6. The Department of Natural Resources did not adequately monitor a project grant.

The Department of Natural Resources did not monitor the pass-through grant to Mankato State University. The department paid funds to the university based on staggered payment dates established in the contract. However, the department did not base the payments on costs incurred. Once the department paid the grant funds, it did not monitor whether the expenditures were appropriate. It did not require the university to submit expenditure status reports. The department did monitor to ensure that the university submitted semiannual project status reports to LCMR. However, we believe the department, as recipient of the appropriation, has a responsibility to monitor specific expenditures and grantee performance. To help ensure that projects are progressing as anticipated, the department should require grantees to periodically report on expenditures. Staff should review reports for compliance with established budgetary requirements and program guidelines.

Recommendation

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

Environmental and Natural Resources Trust Fund

Rails-to-Trails

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

Table 3-6
Rails-to-Trails
Financial Status as of February 28, 1994

Appropriation	\$1,000,000
Expenditures:	
Land Purchases	\$ 950,000
Other	50,000
Total Expenditures	<u>\$1,000,000</u>
Canceled Appropriation	<u>\$ 0</u>

Source: Statewide Accounting System accounting reports and detailed transactions as of February 28, 1994.

Our review of activity through February 28, 1994, showed that costs were in compliance with the budget plan.

Statewide National Wetlands Inventory, Protected Waters Inventory, and Watershed Map Digitization

This appropriation provided funds to complete the digitization of the national wetlands inventory, protected waters inventory, and watershed boundaries.

Table 3-7
Statewide National Wetlands Inventory, Protected
Waters Inventory, and Watershed Map Digitization
Financial Status as of February 28, 1994

Appropriation Amount	\$750,000
Expenditures:	
Unclassified Salaries	\$187,366
Map Production	71,647
Office Machines/Computer Equipment	118,325
Grants	320,494
Other	51,369
Total Expenditures	<u>\$749,201</u>
Canceled Appropriation	<u>\$ 799</u>

Source: Statewide Accounting System accounting reports and detailed transactions as of February 28, 1994.

Environmental and Natural Resources Trust Fund

Our review of activity through February 28, 1994, showed that costs were in compliance with the budget plan.

Research Insecticide Impact on Wetland and Upland Wildlife

This project researched the magnitude of impacts on growth, behavior, and survival of upland and wetland birds caused by insecticides used to control agricultural pests.

Table 3-8
Research Insecticide Impact on Wetland and Upland Wildlife
Financial Status as of February 28, 1994

Appropriation Amount	\$650,000
Expenditures:	
Professional/Technical Services	\$635,000
Other	<u>14,786</u>
Total Expenditures	<u>\$649,786</u>
Canceled Appropriation	<u>\$ 214</u>

Source: Statewide Accounting System accounting reports and detailed transactions as of February 28, 1994.

Our review of activity through February 28, 1994, showed that costs were in compliance with the budget plan.

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 3-9
Environmental Education Program
Financial Status as of February 28, 1994

Appropriation Amount	\$60,000
Expenditures:	
Classified Salaries	\$13,720
Unclassified Salaries	24,183
Rent	6,342
Professional Technical Services	6,000
Other	<u>2,394</u>
Total Expenditures	<u>\$52,639</u>
Canceled Appropriation	<u>\$ 7,361</u>

Source: Statewide Accounting System accounting reports and detailed transactions as of February 28, 1994.

Environmental and Natural Resources Trust Fund

In our November 1993 audit of this project we questioned whether the classified employee salaries complied with statutory requirements relating to the employment status of staff paid from trust fund moneys. LCMR did not request repayment of the amounts in question. Our review of financial activity through February 28, 1994 showed that, except for the issues noted in the November 1993 audit, costs were in compliance with the budget plan.

Environmental and Natural Resources Trust Fund

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Environmental and Natural Resources Trust Fund

Chapter 4. Department of Education

Chapter Conclusions

We have concerns about one of the two trust fund projects administered by the Department of Education. We question the department's allocation of per diem expense to one project.

The Department of Education has two projects, incorporating several individual appropriations for the 1991-1993 biennium. The Legislature allocated \$830,000 for the projects. As of February 28, 1994, the department had spent \$794,228.

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 February 28, 1994

Appropriation Amount	\$730,000
Expenditures:	
Classified Salaries	\$ 25,102
Unclassified Salaries	96,297
Part-time Salaries	79,436
Other Payroll	31,697
Professional Technical Services	88,061
Printing	31,061
Grants	288,000
Other	53,940
Total Expenditures	<u>\$694,228</u>
Canceled Appropriation	<u>\$ 29,551</u>
Unliquidated Appropriation -- Note 1	<u>\$ 6,221</u>

Note 1: Subsequent to February 28, 1994, the remaining balance of \$6,221 was canceled.

Source: Statewide Accounting System accounting reports and detailed transactions as of February 28, 1994.

In our November 1993 audit of this project we questioned whether the classified employee salaries complied with statutory requirements relating to the employment status of staff paid from trust fund moneys. LCMR did not request repayment of the amounts in question. In addition, we recommended that the department establish a process to review grantee expenditures for

Environmental and Natural Resources Trust Fund

propriety. Our review of activity through February 28, 1994 showed that, except for the issues noted in the November 1993 audit and in finding 7 below, costs were in compliance with the budget plan.

7. The Department of Education paid the Environmental Education Advisory Board per diems out of trust fund project funds.

The department spent \$4,785 in per diems for the Environmental Education Advisory Board. The board was created by in 1990 to help pupils and other citizens better understand the environment. The project work plan states that the board will review all phases of the planning effort for the state plan. Completion of the state plan was one of the board's major objectives. The board received a separate General Fund appropriation for normal operating costs which it used on other board expenditures. It originally paid some per diem expenses out of the board appropriation and later transferred them to the trust fund appropriation. It charged both regular board meeting per diems and special meeting per diems to the trust fund. The board had enough funds to pay for the per diems out of its operating budget since \$5,985 of their operating budget canceled back to the General Fund. We believe that normal operating expenses of the board should not be charged to the project.

Recommendations

- *The department should only charge costs outside of the board's regular business to the state plan.*
- *The department should work with LCMR to determine the propriety of per diem charges to the project.*

Video Education Research and Demonstration Project

The purpose of this project was 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 the project funds to Twin Cities Public Television.

Table 4-2
Video Education Research and Demonstration Project
Financial Status as of February 28, 1994

Appropriation Amount	\$100,000
Grant Expenditures:	<u>100,000</u>
Unexpended Appropriation	<u>\$ 0</u>

Source: Statewide Accounting System accounting reports and detailed transactions as of February 28, 1994.

In our November 1993 audit of this project, we recommended improvements in the department's cash management procedures and increased monitoring of grantee expenditure reports. Our review of activity through February 28, 1994 showed that, except for the issues noted in the November 1993 audit, costs were in compliance with the budget plan.

Environmental and Natural Resources Trust Fund

Chapter 5. Department of Administration

Chapter Conclusions

We reviewed one project at the Department of Administration. Our review of activity through February 28, 1994, showed that costs were in compliance with the budget plan.

The Department of Administration had two projects funded from \$2,100,000 in appropriations. As of February 28, 1994, expenditures for these projects totaled \$2,073,616. We tested one project administered by the department, with expenditures totaling \$1,897,684.

Base Maps for the 1990's

The purpose of this appropriation was to provide a state match for a federal program to complete a major portion of the statewide air photo and base map coverage.

Table 5-1
Base Maps for the 1990's
Financial Status as of February 28, 1994

Appropriation Amount	\$1,900,000
Expenditures:	
Professional/Technical Services	\$1,740,000
Books, Maps, Publications	157,684
Total Expenditures	<u>\$1,897,684</u>
Unexpended Appropriation (Note 1)	<u>\$ 2,316</u>

Note 1. Subsequent to February 28, 1994, an additional \$458 was expended and \$1,858 was canceled.

Source: Statewide Accounting System accounting reports and detailed transactions as of February 28, 1994.

Our review of activity through February 28, 1994, showed that costs were in compliance with the budget plan.

Environmental and Natural Resources Trust Fund

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August 29, 1994

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

Dear Mr. Nobles:

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

WELL SEALING COST-SHARING GRANTS

Recommendation #1 - The BWSR did not adequately monitor close out of the well sealing project grants.

Recommendations:

- The BWSR should recover from Dakota County the \$15,010 of unexpended project funds.
- The BWSR should review the financial status of all grants to ensure that grantees return unobligated moneys to the state in a timely manner.

Agency Response:

- BWSR continues to monitor and review the program and financial status of these well sealing grants. We will make every effort to have grantees return unused grant funds within 30 days of grant agreement expiration.
- BWSR requested return of the dollars from Dakota County orally and in writing three months ago. The county thought they had paid the money back right away. However, they found that they had misplaced the paperwork and have issued a repayment recently.

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Mr. James Nobles, Legislative Auditor
August 29, 1994
Page Two

EASEMENT ACQUISITION ON RESTORED WETLANDS

Recommendation #2 - The BWSR did not have written commitments from ten landowners in a timely manner.

Recommendations:

- The BWSR should work with LCMR to establish guidelines for the timing of easement encumbrances and payments.
- The BWSR should promptly complete contracts with landowners.
- The BWSR should seek LCMR approval for the expenditures relating to the easement agreement sent out after the project end date.

Agency Response:

- We appreciate the basis of this recommendation and will continue to communicate with LCMR regarding timing issues keeping in mind statutory and rule requirements, Department of Finance policies and overall state grant administration efficiency and effectiveness.
- It always has been and continues to be a goal of BWSR to promptly, efficiently and effectively deliver all of our programs to our clientele. The easement acquisition area is no exception. Sometimes there are time delays due to legal description problems, land title and ownership problems, construction problems or simply landowner delays in returning documents. We have analyzed and streamlined our process and continue to encourage local units of government (who coordinate and deliver this program at the local level) to keep the process moving.
- We were assured by the Department of Finance that if funds are requisitioned prior to the close of the fiscal year, they view them as valid obligations of the state. Sometimes land and "interest in land" transactions take an inordinate amount of time; however, it is BWSR's contention that the state's "obligation" occurs when we requisition the funds for an approved easement. All of the dollars associated with this grant were requisitioned on or before June 30, 1993.

Mr. James Nobles, Legislative Auditor
August 29, 1994
Page Three

CONSERVATION RESERVE EASEMENTS

Recommendation #3 - The BWSR did not have written commitments from five landowners when it encumbered moneys for easement payments.

Recommendation:

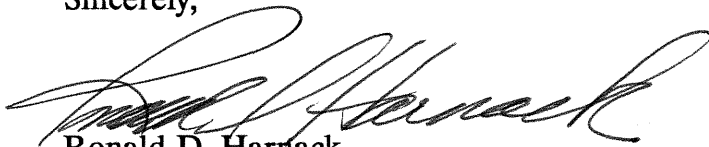
- The BWSR should work with LCMR to establish guidelines for the timing of easement encumbrances and payments.

Agency Response:

- We appreciate the basis of this recommendation and will continue to communicate with LCMR regarding timing issues keeping in mind statutory and rule requirements, Department of Finance policies and overall state grant administration efficiency and effectiveness. We believe that consistent guidelines for encumbrances and payments are important for efficiency and that the Department of Finance guidelines are sufficient to address these concerns.

Again, thank you 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 efficient and effective manner. If you have any further questions, contact me at your convenience.

Sincerely,



Ronald D. Harrack
Executive Director

RDH:mja



Minnesota Department of Natural Resources

OFFICE OF THE COMMISSIONER

500 Lafayette Road
St. Paul, Minnesota 55155-4037

August 22, 1994

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

Dear Mr. Nobles:

Thank you for the opportunity to respond in writing to the audit report of the Environmental and Natural Resources Trust Fund programs administered by the Department of Natural Resources (DNR).

Minnesota County Biological Survey: Finding #4

If this is viewed as a two-year project that terminated on June 30, 1993, then these equipment purchases obviously could not be used on the project and would be inappropriate. However, we knew at the time, and the audit acknowledges, that this appropriation was a segment of a continuing long-term project. These purchases allowed us to accelerate the program by taking advantage of a full field season. Viewed in this context, we believe the purchases supported the goals of the project and were entirely appropriate.


Effects of Changes in the Forest Ecosystem on the Biodiversity of Minnesota's Northern Forest Birds: Finding #5

As you pointed out, DNR did receive the required matching funds for this project. The project received matching money from many different sources. As noted, the funds were deposited to seven accounts in several funds. Department of Finance policies prevent us, in many instances, from commingling funds. Where match is required on future projects, we will seek to use the fewest possible accounts consistent with Department of Finance procedures.

South Central Minnesota Surface Water Resources Atlases and Database: Finding #6

To address this finding, DNR staff worked with Legislative Commission on Minnesota Resources (LCMR) staff to develop new model contract language for grants that will specify that reimbursements will be based on actual cost documentation. This new language is now in effect for all LCMR-funded pass-through projects.

Yours truly,


Rodney W. Sando
Commissioner

cc: Gene Gere Lee Pfannmuller
Ray Hitchcock Bill Becker
Kent Lokkesmoe John Bouthilet
John Heintz





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

MEMORANDUM

TO: Minnesota Office of the Legislative Auditor

FROM: Linda Powell, Commissioner
Minnesota Department of Education

DATE: August 24, 1994

RE: Response to Audit of Environmental & Natural Resources Trust Fund
Audit Report of August 18, 1994.

Since the initiation of Environmental & Natural Resources Trust Fund Grants for environmental education in the 1991-1993 biennium, the Department of Education has tried to work closely with the Legislative Commission on Minnesota Resources Staff to meet our programmatic and fiscal responsibilities. Upon review of the Auditor's report of August 18, 1994 we accept the conclusions and recommendations regarding the two areas of concern.

First, we agree that we should only charge costs outside of the Environmental Education Advisory Board regular business to the State Plan. With the State Plan completed in the summer of 1993 and with no further LCMR funds requested, this per diem issue is no longer current practice. Further, the Board has established specific by-laws which refer specifically to per diem expenditures.

Second, in July 1993, the Department in collaboration with LCMR staff established specific cash management procedures and increased monitoring of grantee expenditures reports and products as related to the LCMR's pass-through grants to other agencies and organizations.

Finally, we believe we are in compliance and concurrence with the Auditor's report.

LP:MP:do

