

**BOARD OF WATER AND SOIL RESOURCES**

**FINANCIAL AUDIT**

**FOR THE THREE YEARS ENDED JUNE 30, 1993**

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**NOVEMBER 1994**

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Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota

**94-56**



# SUMMARY

State of Minnesota

Office of the Legislative Auditor

Centennial Office Building • St. Paul, MN 55155  
612/296-4708

## BOARD OF WATER AND SOIL RESOURCES

### FINANCIAL AUDIT FOR THE THREE YEARS ENDED JUNE 30, 1993

Public Release Date: November 23, 1994

No. 94-56

#### OBJECTIVES:

- **ASSESS INTERNAL CONTROL STRUCTURE:** Personal Services; Grants--General Services, Cost Share Program, Local Water Resources Protection and Management, Wellner-Hageman Dam, Conservation Reserve, Flood Plain Management; and Real Property (Easements)--Reinvest in Minnesota.
- **TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.**

#### CONCLUSIONS:

We found four areas where the internal control structure needed improvement:

- The Board of Water and Soil Resources (BWSR) did not adequately control employees' overtime.
- BWSR does not properly control timesheets for its employees working in field offices.
- Payroll and personnel duties are not adequately segregated.
- BWSR did not exercise adequate fiscal oversight of grants to local governments.

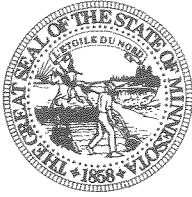
We found two departures from finance-related legal provisions:

- BWSR did not resolve a potential conflict of interest by a board member.
- BWSR needs to develop a plan to properly retain records.

Contact the Financial Audit Division for additional information.  
296-1730

FINANCIAL AUDIT DIVISION





STATE OF MINNESOTA  
**OFFICE OF THE LEGISLATIVE AUDITOR**  
CENTENNIAL BUILDING, ST. PAUL, MN 55155 • 612/296-4708  
JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Senator Phil Riveness, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

D. James Nielsen, Chair  
Board of Water and Soil Resources

Ronald Harnack, Executive Director  
Board of Water and Soil Resources

## **Audit Scope**

We have completed a financial related audit of the Board of Water and Soil Resources for the period July 1, 1990 to June 30, 1993 as outlined below, and as further discussed in the Introduction. We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we consider the internal control structure in order to plan our audit, and that we perform tests of the department's compliance with certain material provisions of laws, regulations, contracts and grants. However, our objective was not to provide an opinion on the internal control structure or on overall compliance with finance-related legal provisions.

## **Internal Control Structure**

For purposes of this report, we have classified the significant internal control structure policies and procedures into the following categories:

- Personal Services
- Grants:
  - General Services
  - Cost Share Program
  - Local Water Resources Protection and Management
  - Wellner-Hageman Dam
  - Conservation Reserve
  - Flood Plain Management
- Real Property (Easements):
  - Reinvest in Minnesota

For the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

## **Management Responsibilities**

Management of the Board of Water and Soil Resources is responsible for establishing and maintaining the 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 internal control 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.

## **Related Audit of the Environment and Natural Resources Trust Fund**

The Board of Water and Soil Resources received funding of \$2,060,000 for six trust fund projects for the 1991-1993 biennium. We audited these projects separately as part of the annual financial audits of the Environment and Natural Resources Trust Fund. Our office has issued two audit reports dated November 19, 1993 and September 14, 1994.

The audit report dated November 19, 1993, identified concerns about three of the six trust fund 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 the objectives for two projects.

The audit report, dated September 14, 1994, 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.

## **Conclusions**

This audit disclosed the conditions discussed in findings 1, 2, 3, and 4 involving the internal control structure of the Board of Water and Soil Resources. We consider these conditions, and the conditions in the above paragraphs related to the Environment and Natural Resources Trust Fund, to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We believe that finding 4 is a material weakness.

The results of our tests of compliance indicate that, except for the issues discussed in findings 5 and 6, with respect to the items tested, the Board of Water and Soil Resources complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to the items not tested, nothing else came to our attention that caused us to believe that the Board of Water and Soil Resources had not complied, in all material respects, with those provisions.

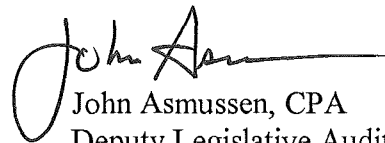
We also noted other matters involving that we reported to the management of the Board of Water and Soil Resources at the exit conference held on August 12, 1994.

This report is intended for the information of the Legislative Audit Commission and management of the Board of Water and Soil Resources. This restriction is not intended to limit the distribution of this report, which was released as a public document on November 23, 1994.

Senator Phil Riveness, Chair  
Members of the Legislative Audit Commission  
D. James Nielsen, Chair  
Ronald Harnack, Executive Director  
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We thank the Board of Water and Soil Resources staff for their cooperation during this audit.

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

End of Fieldwork: August 5, 1994

Report Signed On: November 16, 1994



## Board of Water and Soil Resources

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### Audit Participation

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

John Asmussen, CPA	Deputy Legislative Auditor
Margaret Jenniges, CPA	Audit Manager
Renee Redmer, LPA	Audit Manager
Kari Irber, CPA	Auditor-in-Charge
Laura Puig-White	Auditor

### Exit Conference

The results of this audit were discussed with the following staff of the Board of Water and Soil Resources on August 12, 1994.

Ronald Harnack	Executive Director
James Rossman	Vice-Chair, Board
James Birkholz	Assistant Director
Thomas Schwanke	Business Manager



# Board of Water and Soil Resources

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## Introduction

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The Board of Water and Soil Resources (BWSR) was created by the Legislature in 1987 as the result of a merger between the Water Resources Board, the Soil and Water Conservation Board, and the Southern Minnesota River Basins Council. Currently, BWSR staff total about 50 with over half in outstate Minnesota. BWSR has a central office in St. Paul and seven regional offices located in Rochester, New Ulm, Duluth, Bemidji, Brainerd, Marshall, and St. Paul. The department's current commissioner, Ronald Harnack succeeded James Birkholtz in 1991. The board consists of 12 voting members who are appointed by the governor and 5 non-voting members from the Department of Agriculture, the Department of Health, the Department of Natural Resources, the Pollution Control Agency and the University of Minnesota.

The mission of the Board of Water and Soil Resources is to provide leadership enabling local units of government to properly manage water and soil resources and to help all citizens be stewards of the state's natural resources. BWSR administers a number of grants and technical assistance programs for counties, soil and water conservation districts, watershed districts and watershed management organizations. The board pays landowners to retire marginal and fragile lands from agricultural production through the purchase of permanent easements. BWSR is also responsible to resolve the following: disputes over interpretation of comprehensive local water plans, inter-county disputes over financing of watershed management organization capital improvements, and conflicts over the interpretation of statutory water policy. Finally, the board prepares various publications that are distributed to the public and the local units of government.

The Board of Water and Soil Resources is funded mainly by appropriations from the General Fund, the Environment and Natural Resources Trust Fund and the Capital Projects Fund. The Legislature authorizes the sale of bonds for the appropriations made to the Capital Projects Fund. The department's financial activities for the three fiscal years ended June 30, 1993 are shown in Tables 1-1 to 1-3. Tables 1-1 and 1-2 present the financial activities in the General Fund and the Environment and Natural Resources Trust Fund. These funds are used mainly for administrative costs and grants to local governmental entities. Table 1-3 shows the finances for projects administered by BWSR in the Capital Projects Fund. Real property expenditures financed from these funds are mainly for the purchase of permanent easements.

# Board of Water and Soil Resources

**Table 1-1**  
**Summary of Financial Activity**  
**General Fund**  
**Years Ended June 30, 1991, 1992, and 1993**

	Year Ended June 30		
	1991	1992	1993
Nondedicated receipts	<u>\$ 26,106</u>	<u>\$ 244,180</u>	<u>\$ 13,501</u>
Resources available for expenditures:			
Appropriations	\$8,070,866	\$8,473,500	\$8,745,000
Dedicated receipts (Note 1)	484,971	607,468	644,641
Balance forward in	684,308	232,397	860,887
Transfers in	3,821,951	6,203,000	6,103,000
Transfers out	(3,885,006)	(97)	(6,115,032)
Balance forward out	(153,986)	(7,015,377)	(246,417)
Cancellations	(5,367)	(50,007)	(2,717)
Unliquidated balance	<u>(203,076)</u>	<u>(497,246)</u>	<u>(157,396)</u>
Total Resources Available	<u>\$8,814,660</u>	<u>\$7,953,638</u>	<u>\$9,831,966</u>
Expenditures:			
Personal services	\$1,383,662	\$1,494,787	\$1,998,939
Grants:			
Local Water Resources Protection and Management	2,366,686	2,106,403	2,762,343
Cost Share Program	1,970,286	1,639,407	1,782,941
General Services	835,699	834,946	854,507
Conservation Reserve	750,000	749,700	750,000
Flood Plain Management	82,025	81,237	142,298
Other expenditures	<u>1,426,302</u>	<u>1,047,158</u>	<u>1,540,938</u>
Total Expenditures	<u>\$8,814,660</u>	<u>\$7,953,638</u>	<u>\$9,831,966</u>

Note 1: Approximately \$315,000 of the dedicated receipts and other expenditures were from federal grants.

Sources: Statewide accounting system reports as of August 31, 1991, September 5, 1992, and September 7, 1993.

## Board of Water and Soil Resources

**Table 1-2**  
**Summary of Financial Activity**  
**Environment and Natural Resources Trust Fund**  
**Years Ended June 30, 1991, 1992, and 1993**

	Year Ended June 30		
	1991	1992	1993
Resources available for expenditures:			
Appropriations		\$2,060,000	
Dedicated receipts		32,600	
Balance forward in			\$1,242,845
Balance forward out		(1,201,985)	(2,145)
Unliquidated balance		<u>(187,038)</u>	<u>(689,040)</u>
Total Resources Available	<u>0</u>	<u>\$ 703,577</u>	<u>\$ 551,656</u>
Expenditures:			
Personal services		\$ 80,027	\$ 72,647
Real property (easements)			152,330
Grants		622,787	306,513
Other expenditures		<u>763</u>	<u>20,166</u>
Total Expenditures	<u>0</u>	<u>\$ 703,577</u>	<u>\$ 551,656</u>

Source: Statewide accounting system reports as of August 31, 1991, September 5, 1992, and September 7, 1993.

## Board of Water and Soil Resources

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**Table 1-3**  
**Summary of Financial Activity**  
**Capital Projects Fund**  
**Years Ended June 30, 1991, 1992, and 1993 (Combined)**

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Resources available for expenditures:

Unliquidated appropriation balances from prior years - Reinvest in Minnesota  
(Note 1)

Fiscal year 1990	\$ 3,344,614
Fiscal year X	<u>2,961,132</u>
Total From Prior Years	\$ 6,305,746

Appropriations during fiscal years 1991-1993 (Note 2)

Wellner-Hageman Dam -- Laws 1990 Ch. 610, Art 1 Sec. 15	\$ 1,645,000
Reinvest in Minnesota -- Laws 1990 Ch. 610, Art 1, Sec. 15	750,000
Reinvest in Minnesota -- Laws 1991 Ch. 254, Art 1, Sec. 17	1,900,000
Reinvest in Minnesota -- Laws 1991 Ch. 354, Art 1, Sec. 17	5,000,000
Reinvest in Minnesota -- Laws 1992 Ch. 558, Sec. 19	1,250,000
Permanent Wetlands Preserve -- Laws 1991 Ch. 354, Art 11, Sec. 1	<u>7,000,000</u>
Total Appropriations	\$17,545,000
Dedicated receipts	<u>1,102</u>
Total Resources Available	\$23,851,848

Expenditures

Personal services	\$ 93,244
Real property (easements) - Reinvest in Minnesota	6,689,179
Grants - Wellner-Hageman Dam	1,608,610
Other expenditures	<u>452,395</u>
Total Expenditures	\$ 8,843,428

Available for Future Use as of June 30, 1993 (Note 3) \$15,008,420

Note 1 - Originally, the Reinvest in Minnesota appropriations were appropriated to one fiscal year (i.e. fiscal year 1990). However because the easement projects can take up to several years, funds were allocated to fiscal year X.

Note 2 - The appropriations were generated by bonding authority. Article XI, Section 5 of the Minnesota Constitution authorizes public debt to be incurred for the acquisition and betterment of public land, buildings, and other improvements of a capital nature or loans to state agencies or political subdivisions for this purpose. The Legislature permits the appropriations of funds to state agencies before the bonds are fully issued. Some of the appropriations shown above had some unissued bonds.

Note 3 - The amount available for future use at June 30, 1993 is high because the appropriations are set up for several years and projects may take several years to complete. In addition, funds are encumbered long before easements are finalized. We noted this as a finding in the Environment and Natural Resources Trust Fund report. For the \$7,000,000 appropriation for the Permanent Wetlands Preserve Program, the board did not start encumbering funds for the appropriation until fiscal year 1993. As of June 30, 1993, out of the \$7,000,000 appropriation, \$6,998,941 remained unliquidated.

Sources: Statewide accounting system reports as of August 31, 1991, September 5, 1992, and September 7, 1993.

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### Current Findings and Recommendations

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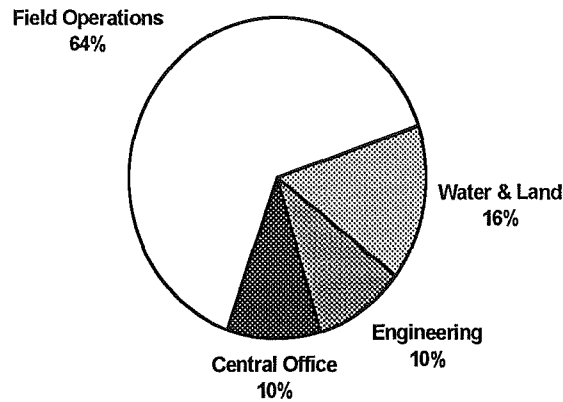
**1. The Board of Water and Soil Resources did not adequately control employees' overtime.**

The Board of Water and Soil Resources (BWSR) allowed its employees to consistently earn overtime. Supervisors did not document overtime authorized for employees' specific projects. Instead, BWSR granted blanket authority for employees to work overtime in a variety of areas. Finally, BWSR did not distinguish between an employees' normal work duties and special projects as required by the state bargaining agreements.

Our analysis of overtime earned by individual employees in fiscal years 1991 to 1993 shows that overtime was used consistently by several staff in the various sections. About 80 percent of the full-time employees claimed overtime during these years. Most of the employees earning overtime are under the MAPE bargaining agreement and earn straight compensatory time off. However, some are AFSCME employees that receive cash payment at time and one-half. The highest amount of overtime was claimed by employees in the seven regional offices of the field operations section. Employees in the northern regional offices of field operations have the highest usage of overtime. This includes the Bemidji, Brainerd, and Duluth offices. Although, overtime was mainly used in the field operations section, it was also used in the other sections: water and land management, engineering, and central office. Eight employees claimed overtime hours ranging from about 9 to 19 percent of their total annual payroll hours. Figure 1-1 shows overtime usage in the various sections.

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**Figure 1-1: Percentage of Overtime Hours by Section  
Fiscal Years 1991 to 1993**



Source: Based on data from the state's payroll system.

Supervisors did not document overtime authorized for employees' specific projects. We could not determine the propriety of overtime claimed by employees without this documentation. The executive director issued a policy on January 3, 1993 that approves a list of special projects that are eligible for compensatory time. Special projects included such duties as: "Work on weekends that is specifically assigned by the supervisor to take place on a weekend. Meetings of local governments, boards, associations, or other BWSR clients which occur at hours other than the employee's agreed to normal work hours", and "work outside the employee's geographic area of responsibility." Employees use this policy as authority for overtime, however, staff do not document the legitimacy of individual work assignments.

BWSR did not distinguish between the employees' normal work duties and special projects in its overtime policy. Our review of position descriptions for some employees denoted that part of their job description included meetings after regular work hours. However, the policy lists certain meetings as eligible for overtime. According to the Minnesota Professional Employees Association (MAPE) contract, employees are only eligible for compensatory time "when assigned to a special work assignment which is in addition to their normal job duties and upon having received advance approval from their appointing authority."

BWSR needs to review its use of overtime in the various sections. It should reevaluate staff duties in the field offices to equalize the workload of employees in these offices. It should also review employees' workload in the other sections to minimize the consistent use of overtime. BWSR should distinguish between normal job duties and special



## Board of Water and Soil Resources

projects, since only special assignments are eligible for overtime compensation. It also needs to improve its prior authorization process to ensure the propriety of overtime.

### *Recommendations*

- *BWSR needs to review its employees duties and responsibilities in the various sections, especially its field offices. It should redefine employees work schedules to accommodate their duties and responsibilities in a normal work day. It should use overtime for special projects only and not for employees normal job duties.*
- *BWSR should establish a system to authorize overtime for individual work assignments that are special projects.*

### **2. BWSR does not properly control time sheets for its employees working in the field offices.**

BWSR does not use the payroll time sheets properly to control time worked and leave taken for its field office employees. To submit time sheets to the central office on a timely basis, field office employees estimate time and leave shown on the time sheets a week in advance. The supervisors forward the time sheets to the accounting clerks in the central office. Employees notify the clerks if there are subsequent changes in hours worked or leave taken. If there are subsequent changes in leave and compensatory time, the supervisor will sign a leave slip authorizing the leave. The payroll clerks return revised time sheets to the employees rather than the supervisors. This is not an efficient or effective method of reporting and controlling hours worked and leave taken. Additionally, by relying on the employee to report changes in hours worked, errors or irregularities could occur without detection by the supervisor. Also, since the controls over authorizing compensatory time are weak, the employee could report ineligible hours of compensatory time earned. Faxing time sheets at the end of the pay period will not only expedite the payroll process, but will also alleviate the chance of errors and changes.

### *Recommendation*

- *BWSR should fax time sheets so that employees are reporting actual hours worked.*

### **3. Payroll and personnel duties are not adequately segregated.**

The office manager in central office has access to the entire payroll/personnel system. The manager is responsible for performing both personnel and payroll functions. The manager authorizes position action forms which are used to add new positions onto the personnel system. The manager also approves employee action forms which are used to add, delete,

## Board of Water and Soil Resources

or change an employee's position or pay rate. In addition, the manager authorizes the employee payroll precertification and certification reports. Agencies use these reports to certify the hours input into the payroll system. The manager also has the ability to input employee hours into the payroll system. With control over both personnel and payroll, errors or irregularities could occur without detection. The executive director or assistant director could sign the position and employee action forms. This would help ensure that only legitimate employees and proper changes in positions and pay rates are input onto the system.

### *Recommendation*

- *BWSR should separate duties between the personnel and payroll functions.*

#### **4. BWSR did not exercise adequate fiscal oversight of grants to local governments.**

BWSR did not properly monitor grants given to local governmental entities for compliance with legal spending restrictions. BWSR did not require financial reporting of program revenues, expenditures, and cash balances to use in its monitoring process. BWSR requires independent financial audits of local entities and performs some limited monitoring. However, BWSR needs to increase its level of review for the complex finance-related legal requirements for its programs.

BWSR does not require its grantees to periodically report program financial activities to ensure compliance with legal spending restrictions. Without an effective monitoring system of program financial activities, BWSR cannot ensure that state funds are properly used or returned to the state. BWSR requires grantees to submit certain plans and reports; however, it does not request program expenditures. Without monitoring funds used by grantees, the risk of local units keeping unspent funds increases. For example, we noted a balance of Flood Plain Management funds totaling \$17,000 in 1993. The grantee did not return this balance to the state, and BWSR did not pursue the disposition of these funds. BWSR needs program financial reports to monitor legal spending requirements and the return of unused grant funds.

BWSR staff perform very limited fiscal compliance reviews of grantees' programs. Conservationists and financial staff make periodic visits to local governments; however, the process is not sufficient to provide the necessary coverage of grantee expenditures. For example, various grants have local and state matching requirements and other spending limitations that BWSR did not sufficiently monitor. In addition, many programs require the local unit to return unused grant funds.

Board policy requires regional office conservationists to monitor the legal compliance issues for its programs. However, conservationists are not making these reviews regularly. Conservationists made fiscal reviews more frequently prior to 1990; however,

## Board of Water and Soil Resources

only 11 of the 91 districts were reviewed in 1992 and 1993. BWSR has a regional accounting coordinator who periodically works with districts when problems occur; however, the coordinator does not specifically review legal spending restrictions.

We reviewed six programs providing grants to local units that had complex finance-related legal requirements as shown in Table 1-4.

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**Table 1-4**  
**Summary of Programs and Grantees**

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<u>Program</u>	<u>Grantee</u>
General Services	Soil and Water Districts
Cost Share Program	Soil and Water Districts
Local Water Resources Protection and Management	Counties
Wellner-Hageman Dam	Brown County
Flood Plain Management	Area II and Brown County
Conservation Reserve	Soil and Water Districts

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Following are some of the key legal spending restrictions:

- Cost Share Program -- BWSR provides grants to soil and water conservation districts for further distribution to landowners. MCAR 8400.28 stipulates that the landowner cannot receive the maximum amount for the project from the state. The MCARs also stipulate that if federal funds are used to supplement the project, the state and federal funds can not exceed the maximum state match rates. The maximum state match varies from 50 percent to 75 percent depending on the project. Minn. Stat. Section 103C.501 establishes a limit of 20 percent of state funds for lower priority work or administrative costs.
- Flood Plain Management -- Minn. Stat. Section 103f.175 stipulates that grants shall not exceed 75 percent of the total cost of each project, including site acquisition, engineering and construction costs.
- Local Water Resources Protection and Management Program-- MCAR 8405.12, Subd. 2, provides, in part, that the county must provide a one to one match for plan development and challenge grants.

In addition, counties and soil and water conservation districts are required to return unspent funds within one to two months after the grant period. For the Cost-Share Program the grant agreement stipulates the district should return unencumbered funds within one month after the end of the grant period. The program also requires the district to return funds if it has not started a project with a landowner within 18 months, or completed the project within 24 months of the grant's inception.

## Board of Water and Soil Resources

### *Recommendations*

- *BWSR should require grantees to submit periodic financial reports to monitor program spending restrictions and ensure that unspent funds are returned to the state.*
- *BWSR should ensure adequate oversight of its grantee funds.*

#### **5. BWSR did not resolve a potential conflict of interest by a board member.**

BWSR did not properly resolve a potential conflict of interest by a board member in 1991. Board members may have financial interests in BWSR activities that create conflicts of interest as defined in the code of ethics, Minn. Stat. Section 10A.07.

In 1991, a board member enrolled in the Reinvest in Minnesota Program and participated in the board meeting in which his land was approved for the program. The program reimburses landowners for enrolling their land in a permanent conservation easement and then provides assistance to restore the area to grass, trees or wetlands. Landowners apply for the program and before they are approved for processing, the applications are reviewed at the soil and water conservation district and then at the Board of Water and Soil Resources. At the time this easement was processed, the Board served as the final step in the easement application process. In this case, the Board member made the motion to approve the easements selected and voted on the motion. This member received over \$17,000 for the easement from the state. According to the code of ethics, the member should not have voted on this motion. The board needs to ensure that members do not use their official position to influence the selection and approval of state grants on their behalf.

### *Recommendation*

- *BWSR should comply with Minn. Stat. Section 10A.07 in resolving potential conflicts of interest with board members.*

#### **6. BWSR needs to develop a plan to properly retain records.**

BWSR does not have a written record retention schedule. Minn. Stat. Section 15.17, Subd 2, states that the chief administrative officer of each public agency shall be responsible for the preservation and care of the agency's government records. Minn. Stat. Section 138.17 establishes the records retention panel and process to inventory state records. The Department of Administration's Information Policy Office coordinates the inventory process.

Maintaining records are necessary to provide evidence of previously conducted business, documentation for legal and auditing purposes, and historic documentation of state

## Board of Water and Soil Resources

business. Without properly establishing a record retention schedule, the agency may destroy or misplace important documents.

### *Recommendation*

- *BWSR should work with the Department of Administration in preparing a records retention schedule.*

## **Board of Water and Soil Resources**

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November 9, 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 report for the financial audit performed on our agency for fiscal years 1991, 1992, and 1993. Thank you for the opportunity to comment on the findings and recommendations included in the audit report.

**FINDING #1 The Board of Water and Soil Resources (BWSR) did not adequately control employee's overtime.**

*Recommendations:*

- BWSR needs to review its employees duties and responsibilities in various sections, especially its field offices. It should redefine employees work schedules to accommodate their duties and responsibilities in a normal work day. It should use overtime for special projects only and not for employees normal job duties.
- BWSR should establish a system to authorize overtime for individual work assignments that are special projects.

*Agency Response:*

- BWSR's policy does not support or condone a consistent or frequent use of comptime/overtime to achieve the implementation of the agencies program. Although formal documentation of use needs to be improved, use of comptime/overtime has been consistent with BWSR's policy.
- BWSR workload and program assessment process is being utilized as part of the biennial budget process to address program needs and issues and as appropriate prioritization so that staffing and workload are complimentary. This will further minimize overtime accrual.
- Significant portion of the overtime was directly related to two program areas to meet critical service timeframes. One is the

processing of RIM easements to meet agency imposed service timeframes, and the second is to meet wetland conservation act mandates that could not be delayed without causing significant political and fiscal and environmental impacts. This area of effort is reducing as local governments develop greater capacity, technically and administratively.

- BWSR management will conduct an analysis and revision of current BWSR policies and position descriptions.
  - a) To better define "normal work duties" and "special projects".
  - b) To better address documentation and authorization of overtime.

**FINDING #2 BWSR Does not properly control time sheets for its employees working in the field offices.**

*Recommendations:*

- BWSR should fax time sheets so that employees are reporting actual hours worked.

*Agency Response:*

- We totally concur with the audit finding and have already instituted the recommendation. Employees in field offices now complete their time sheets at the end of the pay period and fax them to the regional supervisor's office. They are reviewed, approved and signed there. Then they are faxed to the Central Office in St. Paul where the agency payroll is processed and input.

**FINDING #3 Payroll and personnel duties are not adequately segregated.**

*Recommendation:*

- BWSR should separate duties between the personnel and payroll function.

*Agency Response:*

- Again, we concur with the audit finding and have already instituted the recommendation. Every effort is made to separate the personnel and payroll functions. In a small agency, there are not enough employees to separate the responsibility for personnel and payroll functions. The Business Manager is now processing and authorizing personnel documents (i.e., Personnel Action Forms (PAF's) and Employee Action Forms (EAF's). The Executive Director or Assistant Director is now reviewing and authorizing the employee payroll precertification and certification reports.

**FINDING #4 BWSR did not exercise adequate fiscal oversight of grants to local governments.**



*Recommendations:*

- BWSR should require grantees to submit periodic financial reports to monitor program spending restrictions and ensure that unspent funds are returned to the state.
- BWSR should ensure adequate oversight of its grantee funds.

*Agency Response:*

- BWSR makes every effort to review and monitor program grants to ensure that grant objectives are realized. BWSR field staff meets frequently, both informally and formally regarding a variety of programs and thereby have a good understanding of the local governments progress in meeting grant objectives. Problems are addressed accordingly. We believe that the overall performance and fiscal responsibility of our grantees is acceptable.
- BWSR will require grantees to provide a more detailed fiscal accounting of dollars as part of the grant reporting process.
- In the past three years, BWSR has reduced the number of grants processed by approximately two hundred through consolidation of various programs, grants information, one grant application, one agreement and one report under a Natural Resource Block grant process. This will improve overall efficiency of monitoring.
- BWSR has put forth budget initiative to establish increased effort for internal auditing and program grant monitoring.
- The referenced Flood Plain Management grant was for technical services. The associated grant agreement required an annual audit by an independent auditor, who did not identify any misuses of funds by the grantee in FY 1993. The concern about timing of obligations and expenditures was discussed with the grantee and BWSR has revised the grant agreement to ensure that excess grant funds would be returned.
- BWSR requires Cost-Share grantees to periodically undergo financial audits. These audits are conducted by staff after grants have expired or been satisfied. Depending upon when conservation practices are completed, a Cost-Share grant made to a SWCD in FY 1993 may not be scheduled for auditing until 1995. In some instances, grants were not due for audit until after this agency audit was completed. This fact contributed to the low ratio of local 1992 and 1993 audits completed. Audits that have been conducted historically reflect substantial compliance with grants. On those rare occasions where districts have been found in conflict with grant objectives, administrative and fiscal corrections have been made.

**FINDING #5 BWSR did not resolve a potential conflict of interest by a board member.**

*Recommendation:*

- BWSR should comply with Minn. Statute 10A.07 in resolving potential conflicts of interest with board members.

*Agency Response:*

- The board members, upon appointment to the board, are required to sign documents with the Board of Ethical Practices. They receive information relating to ethical standards of conduct. The integrity of the board and its decisions are a serious matter for the board. On several occasions board members have withdrawn from decisions based on perceived or potential conflicts of interest. Although the decision that is referenced in the audit finding appears to be significant, it was merely approval of the final allocation based on previous decided policy, priority and allocation of the board.
- BWSR is currently drafting and by-laws incorporating specific guidance with respect to "conflicts of interest."

**FINDING #6 BWSR needs to develop a plan to properly retain records.**

*Recommendation:*

- BWSR should work with the Department of Administration in preparing a records retention schedule.

*Agency Response:*

- BWSR has a records retention plan and a records retention schedule developed in 1988 and updated in 1990. We have been in contact with the Department of Administration, Information Policy Officer to assist BWSR in developing an amended plan to properly retain documents and update the records retention schedule.

Again, thank you for the opportunity to respond to the audit findings. If you have any further questions, contact me at your convenience.

Sincerely,



Ronald D. Harnack  
Executive Director

RH/rm

c: M-team  
Lyle Mueller, EBO  
Board Members