

# Department of Natural Resources

## Selected Scope Financial Audit For the Year Ended June 30, 1994

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September 1995

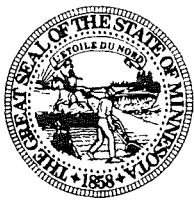
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Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota

95-39





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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Legislative Audit Commission

Members of the Legislative Audit Commission


Mr. Rodney W. Sando, Commissioner  
Department of Natural Resources

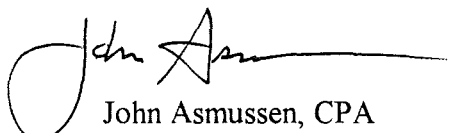
We have conducted an audit of selected programs and activities of the Department of Natural Resources for the year ended June 30, 1994, as further explained in Chapter 1. We emphasize that this has not been a complete audit of all Department of Natural Resources programs. Our audit scope included reviews of fiscal year 1994 appropriation allocations, department processing of cash and land donations, payments to Indian Reservations, payments to counties in lieu of taxes, and certain other administrative issues. The following summary highlights the audit objectives and our conclusions. We discuss these issues more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the Department of Natural Resources complied with the provisions of laws, regulations, contracts, and grants that are significant to the audit.

This report is intended for the information of the Legislative Audit Commission and the management of the Department of Natural Resources. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 29, 1995.

We thank the staff of the Department of Natural Resources for their cooperation during this audit.

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

End of Fieldwork: April 14, 1995

Report Signed On: September 25, 1995



# SUMMARY

State of Minnesota  
Office of the Legislative Auditor  
Centennial Office Building • St. Paul, MN 55155  
612/296-4708

## Department of Natural Resources

### Selected Scope Financial Audit For the Year Ended June 30, 1994

Public Release Date: September 29, 1995

No. 95-39

#### Agency Background

The Department of Natural Resources, in its 1994-95 biennial budget narrative, describes its mission as follows:

To serve present and future generations of Minnesotans by professionally managing our rich heritage of fish, wildlife, wetlands, forests, minerals, public lands, and other natural resources in order to preserve and enhance the environment. To this end, the agency is charged with the management of public waters, lands, parks, forests, and minerals, as well as with the regulation of a broad range of activities that affect natural resources.

The department finances its operations through a combination of legislative appropriations, dedicated receipts, and gifts. The department is comprised of eight program areas, including operations support. Rodney Sando is the commissioner of the agency.

#### Selected Audit Areas and Conclusions

Our audit scope included a review of the department's control over allocating its appropriations, the department's process for accepting gifts, including Critical Habitat Matching gifts, and the payments to Indian reservations and to counties in lieu of taxes for the year ended June 30, 1994.

We concluded that, for fiscal year 1994, the department complied with appropriation laws when allocating appropriations to individual accounts within the department's eight program areas. The department also followed applicable Department of Finance policies when transferring funds between programs and appropriations.

We also concluded that the department generally complied with the state gift acceptance policies and the requirements of the Critical Habitat Match Program. However, we found that the department did not promptly deposit cash donations given to state parks, the department did not properly document the value of certain donated land, and the department did not comply with the gift acceptance policy for partial land donations for the Critical Habitat Program.

Finally, we concluded that department payments to Indian bands and to counties in lieu of taxes complied with applicable laws and agreements.

Contact the Financial Audit Division for additional information.  
296-1235



## Department of Natural 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
Jeanine Leifeld, CPA	Audit Manager
Jack Hirschfeld, CPA	Auditor-In-Charge
Kari Irber, CPA	Auditor
Lori Kloos	Auditor
Marina Mirman	Auditor

### Exit Conference

We discussed the issues in this report with the following staff of the Department of Natural Resources on September 15, 1995:

Gene Gere	Assistant Commissioner for Administration
John Heintz	Financial Management Director
Bill Brinker	Parks Business Manager
Jim Lawler	Real Estate Management Administrator
Wayne Frankenburg	Budgeting Manager
John Bouthilet	Accounting Manager





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## Chapter 1. Introduction

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The Department of Natural Resources (DNR) in its 1994-95 biennial budget narrative, describes its mission as follows:

To serve present and future generations of Minnesotans by professionally managing our rich heritage of fish, wildlife, waters, wetlands, forests, minerals, public lands, and other natural resources in order to preserve and enhance the environment. To this end, the agency is charged with the management of public waters, lands, parks, forests, and minerals, as well as with the regulation of a broad range of activities that affect natural resources.

The department has approximately 3,200 full and part-time employees. The department is comprised of seven divisions, departmental field operations, and support services. Directors of each division report to the assistant commissioner for operations. The DNR operates six regions throughout the state. Each region has supervisors representing the department's various divisions, as well as a regional administrator who provides overall coordination and support for the region. The regional support staff provides specialized services for field operations, including facility and equipment maintenance, inventory management, land sale and leasing administration, engineering, personnel management, financial management, information and education services, and office management functions.

The department finances its operations through a combination of legislative appropriations, dedicated receipts, and gifts. In this audit, we examined two of the department's resources: appropriations and gifts.

We reviewed the department's control over allocating its appropriations. Fiscal year 1994 appropriations totaled \$165.7 million. Figure 2-1 shows the appropriation totals by funding source. This included reviewing the department's fiscal year 1994 budget request and testing the allocation of the appropriations to the fiscal year 1994 spending plan. We also tested adjustments and transfers of appropriation balances between programs. Chapter 2 discusses the results of our appropriation review.

In addition, we reviewed the department's process for accepting gifts, including both cash and land. Fiscal year 1994 cash donations totaled \$2,797,500 and land donations totaled \$2,007,000. We examined the department's procedures for the matching of donated cash and land with other DNR funds. Chapter 3 discusses cash and land donations.

Lastly, we examined the payments to the Indian bands and to the counties for in-lieu-of taxes, as well as other issues which came to our attention. We have included conclusions on those areas in Chapters 4 and 5.

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## Chapter 2. Appropriation Control

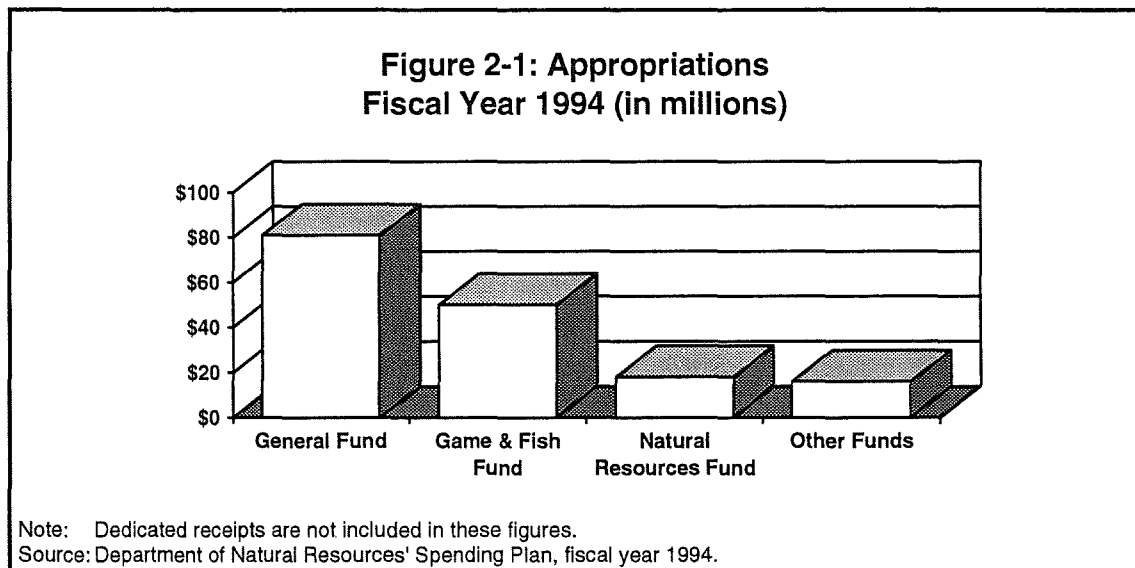
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### *Chapter Conclusions*

*For fiscal year 1994, the Department of Natural Resources complied with appropriation laws when allocating appropriations to individual accounts within the department's eight program areas. The department also followed applicable Department of Finance policies when transferring funds between programs and appropriations.*

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The Department of Natural Resources (DNR) funds its operations primarily from three sources: the General Fund, the Game and Fish Fund, and the Natural Resources Fund. Other funding sources include the Permanent School Fund, the Minnesota Resources Fund, and the Environmental Trust Fund. The legislature appropriated \$165,715,000 from the above funding sources to the department for fiscal year 1994. Figure 2-1 presents the appropriation totals for the various funding sources.



### Objectives and Methodology

Our objectives in the appropriation area were to answer the following four questions:

- Does the department correctly allocate state appropriations to programs and to individual accounts within programs in accordance with appropriation laws?

## Department of Natural Resources

- Were allotment amounts entered to the appropriate accounts within the statewide accounting system?
- Did the department follow correct procedures when transferring appropriated funds between programs?
- Were transfers limited to program transfers within funds and not transfers between funds?

To address these questions, we reviewed the appropriations made to the agency for fiscal year 1994. We reviewed the agency's controls over allocating these appropriations. We tested appropriation transfers between programs and allotment entries to the statewide accounting system. We verified that the agency followed appropriation laws when allocating appropriations. We did not review the propriety of expenditures charged to appropriations as part of this audit.

### Appropriation Control

The appropriation laws allocate the total appropriation amount among DNR's eight programs. With the exception of the Operations Support Program, each program uses these funds for the direct management of the natural resources of the state and its users. The Operations Support Program uses allocated funds to provide common services required by all programs to enable them to accomplish their mission. Table 2-1 presents the appropriations allocated to each program.

**Table 2-1: Program Appropriation Allocations  
Fiscal Year 1994**

<u>Program Area</u>	<u>General Fund</u>	<u>Game and Fish Fund</u>	<u>Natural Resources Fund</u>	<u>Other</u>
Mineral Resources	\$ 4,757,602	\$ 0	\$ 0	\$ 0
Water Resources	7,716,142	0	101,168	684,722
Forest Management	26,463,102	321,000	433,000	170,000
Parks and Recreation	21,664,437	0	608,069	1,825,000
Trails and Waterways	1,201,874	811,365	9,084,723	4,587,500
Fish & Wildlife Management	2,498,920	30,571,972	1,997,692	4,534,592
Enforcement	2,997,863	10,298,069	2,630,750	19,500
Operations Support	<u>13,768,121</u>	<u>8,004,031</u>	<u>3,576,465</u>	<u>4,387,608</u>
Totals	<u>\$81,068,061</u>	<u>\$50,006,437</u>	<u>\$18,431,867</u>	<u>\$16,208,922</u>

Note: Dedicated receipts were not included in appropriation figures.

Source: Department of Natural Resources' Spending Plan, fiscal year 1994.

The appropriation laws specify that certain allotments be made to specific accounts within the various programs. Appropriations not specified for particular accounts within a program may be allocated as determined by the agency spending plan. Laws of Minn. for 1993, Chapter 172, Section 18, subd. 1, allows the commissioner to transfer funds among the programs upon advance approval of the Commissioner of Finance. Minn. Stat. Section 16A.28, subd. 1-2, allows any unused appropriation amounts to be carried forward to the second year of the biennium.

## Department of Natural Resources

We found the department complied with applicable laws and state policies in allotting fiscal year 1994 state appropriations to programs and individual accounts within the programs. It also correctly appropriation allocations to the statewide accounting system.

### Appropriation Reprogramming

During fiscal year 1994, the department made a series of transfers among its appropriation accounts. After final enactment of appropriation laws, DNR's financial management bureau received requests for additional funding for programs that may have been inadequately funded or that received no funding. DNR's finance committee and senior managers' council reviewed these additional funding requests to determine if transfers should be made from allotted appropriations to fund these reprogramming requests. By law, all transfers must be approved by the Department of Finance. In addition, the agency must report transfers among programs to the legislature. Table 2-2 shows the schedule presented to the legislature of the approved transfers made to support the reprogramming requests for fiscal year 1994. We did not find any inappropriate or unauthorized transfers between funds.

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**Table 2-2: Summary of Transfers Supporting Reprogramming  
Fiscal Year 1994**

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<b>Fund</b>	<b>From Program</b>	<b>To Program</b>	<b>Amount</b>
General	Mineral Resources	Water Resources	\$ 11,900
General	Forest Management	Water Resources	56,000
General	Parks and Recreation	Water Resources	1,100
General	Parks and Recreation	Operations Support (net)	45,399
General	Fish and Wildlife	Operations Support	1,643
General	Enforcement of NR Laws	Operations Support	37,300
General	Forest Management	Operations Support (net)	43,314
General	Operations Support	Water Resources	4,759
General	Operations Support	Trails and Waterways (net)	899
Natural Resources	Trails and Waterways	Administrative Management	9,071
Natural Resources	Trails and Waterways	Operations Support (total)	8,639
Special Revenue	Trails and Waterways	Operations Support	650
Game and Fish	Trails and Waterways	Operations Support	1,512
Game and Fish	Enforcement of NR Laws	Operations Support (net)	6,856
Game and Fish	Operations Support	Fish and Wildlife (net)	79,157

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Source: DNR's Schedule of Transfers Supporting Reprogramming Report submitted to the legislature for fiscal year 1994.

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## **Department of Natural Resources**

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## Chapter 3 Cash and Land Donations

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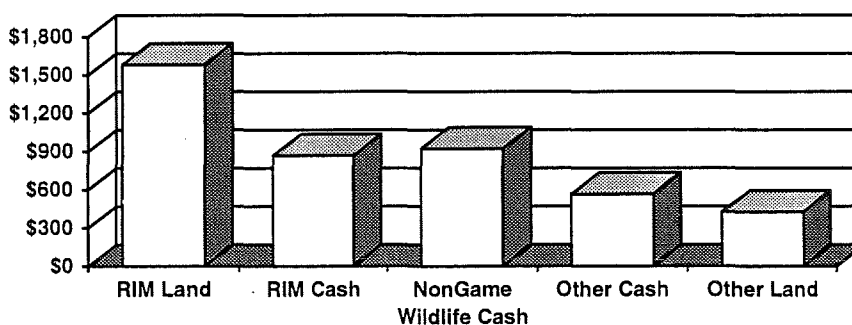
### *Chapter Conclusions*

*The Department of Natural Resources (DNR) accepts both cash and land donations. Most of these donations are for the Reinvest in Minnesota (RIM) Critical Habitat Match Program. We found that the department complied with the state gift acceptance policies and the requirements of the Critical Habitat Match Program. However, we found the following weaknesses in the department's gift policies and procedures:*

- DNR procedures do not provide for the prompt deposit of cash donations given to state parks,*
- DNR did not properly document the value of land donated to programs other than the Critical Habitat Match Program, and*
- DNR did not comply with the gift acceptance policy for partial land donations for the Critical Habitat Program.*

DNR receives donations of cash and land from citizens, private interest groups, and businesses. The department also receives miscellaneous donations of equipment and other items, but those donations are not significant. We included only cash and land contributions in our review. Cash donations to the department during fiscal year 1994 amounted to \$2,797,500. Land donations amounted to \$2,007,000. The majority of the donations are for the Reinvest in Minnesota (RIM) Critical Habitat Match Program. Figure 3-1 shows donations to the department during fiscal year 1994.

**Figure 3-1: Fiscal Year 1994 Donations  
(in thousands)**



Source: Statewide Accounting Report Estimated Actual Report as of the close for fiscal year 1994.

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In our examination of donations to the department, we addressed the following questions:

- Did DNR establish procedures that were in compliance with Department of Finance gift acceptance policy 06:06:07, and were these procedures followed?
- Were the cash donations properly recorded, and did the department expend the cash donations in compliance with the donors wishes?
- For the RIM Critical Habitat Program, did DNR adequately match all donations in accordance with Minn. Stat. Section 84.943?
- Does DNR accurately record the value of the land donations in the state's fixed asset account group?

We reviewed DNR's policies on cash and land donations to determine whether the department had policies that complied with Department of Finance policy 06:06:07 and Minn. Stat. Section 7.09 for gift acceptance. We then reviewed the process for regular cash and land donations (non-RIM) and for the Critical Habitat Program. We selected a sample of regular cash and land donations and a sample of Critical Habitat cash and land donations. For each sample, we tested files to determine whether the DNR was in compliance with the DOF policy 06:06:07 and DNR's internal policies concerning gift acceptance. We also tested whether DNR used the funds for the appropriate purpose. For the Critical Habitat Program, we tested the files to determine whether the department complied with Minn. Stat. Section 84.943 by properly matching the donations. Finally, we evaluated the process in which DNR records the land donations in the state's fixed asset system.

### Cash Donations

DNR receives cash gifts from various outside sources. The Fish and Wildlife Division receives the majority of the cash donations, mostly to the Critical Habitat Program. Another primary source of cash donations is the non-game checkoff filed by individual taxpayers. Minnesota taxpayers can choose to donate part of their tax refund to the Non-Game Checkoff Fund. The Minnesota Department of Revenue transfers these donations to the Division of Fish and Wildlife within DNR. Table 3-1 shows donations received by each of DNR's divisions during fiscal year 1994.

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**Table 3-1**  
**Total Cash Donations by Program**

<u>Program</u>	<u>Amount</u>
Fish and Wildlife	\$2,152,000
Operations Support (1)	473,600
Parks	85,800
Forest Management	45,600
Trails and Waterways	27,200
Enforcement	12,000
Water Resources	1,000
Mineral Resources	300
Total	<u>\$2,797,500</u>

(1) Includes approximately \$442,000 in collections for *Volunteer* magazine subscriptions.

Source: Fiscal Year 1994 Statewide Account Estimated/Actual Receipts Report as of the close.

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## Department of Natural Resources

We tested DNR's procedures and determined that DNR was in compliance with the Department of Finance policy 06:06:07, Minn. Stat. Section 7.09 and DNR internal policies for cash gift donations. Generally, we found that DNR deposited the cash promptly and used the funds in accordance with donor requests. However, we found that individual parks did not deposit their cash donations promptly. Parks forward cash donations to the central office rather than depositing the money directly when received.

### **1. DNR procedures do not provide for the timely deposit of cash donations to the state parks.**

DNR parks do not directly deposit donation checks. Instead, the parks forward the checks to the central office in Saint Paul for deposit. Park division gift acceptance procedures specify that donations be forwarded to the central office. Central office then codes the gift for deposit and prepares the gift acceptance form. Parks received approximately \$85,000 in donations during fiscal year 1994.

By forwarding donations received in the parks to the central office, the department delays the deposit of these funds by several days. In addition, sending checks to the central office increases the likelihood that checks could become lost or stolen. Parks should deposit donations directly and forward the necessary information and forms to the central office.

#### *Recommendation*

- *DNR should reevaluate its procedures to ensure that significant state park donations are promptly deposited.*

## **Land Donations**

DNR also receives a significant number of land donations. The majority of land donations were for the Critical Habitat Match Program. Table 3-2 shows the land donations received in fiscal year 1994.

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**Table 3-2 Total Land Donations  
Fiscal Year 1994**

	Appraised Property Value	Matched to Appropriation Year
<u>RIM Critical Habitat Projects:</u>		
Kabetogama State Forest	\$234,514	1993
Sugarbush Lake WMA	24,400	1993
Timber Lake WMA	5,600	1993
Timber Lake WMA	8,000	1993
Head Lake WMA	8,200	1993
Pickereel Lake AMA	17,600	1993
Bowstring Deer Yard WMA	11,338	1993
NW Hanska WMA	2,600	1993
Somsen WMA	5,000	1993
Libra WMA	4,700	1993
Great Oasis WMA	2,200	1993
Hanson WMA	5,200	1993
Mamre WMA	12,500	1993
Shaokatan WMA	5,100	1993
PF Mulder WMA	7,250	1993
Rock River WMA	46,350	1993
Suconnix WMA	20,000	1993
Spirit Prairie WMA	6,500	1993
Spirit Prairie WMA	10,500	1993
River Valley WMA	13,500	1993
Glendalough State Park	500,000	1993
Heron L. WMA-West Heron	174,300	1993
Marsh WMA	4,100	1993
Lutsen SNA	100,000	1993
Lake Latoka AMA	3,500	1993
Deutsch WMA	21,100	1993
William O'Brien State Park	209,000	1992
Hassan Valley WMA	22,700	1991
Mulligan L. Peatlands SNA	8,200	1992
Quistorff WMA	11,300	1993
Total Critical Habitat Donations (1)	\$1,505,252	
<u>Other Land Donations:</u>		
16 Donations total	721,100	
Grand Total	<u>\$2,226,352</u>	

Note: WMA is wildlife management area, SNA is scientific and natural area, and AMA is aquatic management area.

(1) Critical Habitat donations allow DNR to spend a matching amount of its critical habitat appropriations.

Source: DNR internal land management records.

The donor first notifies the appropriate division of the intent to donate a parcel of land. The division then submits a fact sheet on the parcel to DNR's Real Estate Management Bureau. Real Estate Management uses the following criteria for accepting land donations:

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- The parcel is logically added to an existing management unit because of its location or unique characteristics contributing to the unit's management potential.
- The parcel has special value to a division even though it will not be added to an existing management unit.
- The land is valuable to the department, though not for a particular division.
- It has value as a real estate asset to be sold, exchanged, or transferred.

Once the Real Estate Management Bureau and the division decide to accept the land donation, they follow additional steps to acquire the land. For non-critical habitat donations, the bureau does not require appraisals on the property. If the land owner requests an appraisal for tax purposes, either the bureau's appraisers or the landowner's appraiser can do the appraisal. For each piece of donated land, the commissioner signs a certificate of acceptance form. This form certifies that the department received the parcel as a gift. The divisions are responsible for sending acknowledgment letters to the donors.

For land donations, we concluded that DNR generally followed the appropriate gift acceptance procedures. However, the department did not always obtain appraisals for some of its donated land.

### **2. The Department of Natural Resources did not document estimated land values for some donated properties.**

The Department of Natural Resources did not document land values on some donated land. DNR does not require appraisals on land which is not part of the Critical Habitat Program. If the landowner does not request an appraisal, DNR does not conduct an appraisal.

Because DNR does not appraise the value of non-critical habitat donated property, it must adequately document the alternative procedures used to estimate of the value of newly acquired land. We tested a sample of 16 land acquisitions donated in fiscal year 1994, of which 4 parcels did not have an appraisal. There was insufficient documentation in the files to support the land values attached to these donated parcels. In addition, DNR did not record any value for these properties on its internal real estate management system.

#### *Recommendation*

- *DNR should accumulate and maintain sufficient evidence to document the value of all lands donated to the department.*

## **Critical Habitat Match**

This program gives individuals, groups, or businesses a chance to partially fund the cost of acquiring or developing critical fish, wildlife, and plant habitats. The legislature first appropriated funds for this program in 1986. Pursuant to Minn. Stat. Section 84.943, the legislature established the Minnesota Critical Habitat Private Sector Matching Account as a separate account in the Reinvest in Minnesota Resources Fund. State funds in the Minnesota

## Department of Natural Resources

Critical Habitat Private Sector Matching Account must be matched dollar for dollar by restricted and unrestricted contributions of land, easements, or cash for the program. DNR's Division of Fish and Wildlife is responsible for administering the program. Before DNR accepts a donation, a panel of Fish and Wildlife Division staff review the donation to determine whether it meets the criteria for a critical habitat.

Once a donation is approved and accepted, the Fish and Wildlife Division staff allot the matching amount out of the Critical Habitat Matching Account. In addition, Minn. Stat. Section 84.973 allows nongame checkoff funds to be used for match for nongame critical habitats. Before expenditures can be made from these matching funds, the Legislative Commission on Minnesota Resources must approve the projects. Table 3-3 shows the history of the financial activity for the Critical Habitat program.

**Table 3-3 Critical Habitat Appropriations  
as of June 30, 1994**

Year	Amount Appropriated	Cash Donations	Land Donations	Amount Unmatched
1986	\$ 2,500,000(1)	\$899,745	\$1,600,255	\$ 0
1987	1,200,000(1)	583,383	616,617	0
1989	1,000,000(1)	114,494	885,506	0
1990	500,000(1)	126,456	373,544	0
1991	3,000,000(1)	348,906	2,651,040	54
1992	1,250,000(1)	0	0	1,250,000
1993	2,600,000(2)	833,000	1,161,168	605,832
Total	<u>\$12,050,000</u>	<u>\$2,905,984</u>	<u>\$7,288,130</u>	<u>\$1,855,886</u>

(1) Appropriated from bonding money.

(2) Appropriated from the Natural Resources and Environmental Trust Fund.

Source: Appropriation Laws, Allotment Balance Within Appropriation Report, June 30, 1994.

Critical habitat land donations generally follow the same procedures as regular land donations. However, Minn. Stat. Section 84.973 requires DNR to do appraisals on all donated property for the Critical Habitat Program. The appraisals can be done by either DNR appraisers or the landowner's appraiser. The appraisal serves as the basis for the donation. Therefore, the matching amount would be the same as the appraisal amount. Total land donations for the Critical Habitat Program were \$1,581,000 for fiscal year 1994.

DNR's Fish and Wildlife Division also matches partial land donations. For example, some donors may donate a certain percent of the land parcel and then DNR will purchase the remaining percent. The portion that DNR purchases can serve as the matching allocation. In some cases, DNR may purchase a parcel at a bargain price. According to Minn. Stat. Section 84.0274, the landowner is entitled to the fair market value or appraised value of the property. As a result, DNR considers the difference between the appraised value and the purchase price to be a gift. We noted a problem with the way the Fish and Wildlife Division treated partial land donations and allocated matching funds between accounts.

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### 3. The department does not require gift acceptance forms for partial land donations.

DNR does not complete gift acceptance forms for partial donations. According to Department of Finance policy 06:06:07 and internal DNR policy, gift acceptance forms must be completed and approved by the DNR commissioner if the gift is over \$500. The Department of Finance policy states that if a gift is anything other than money, the estimated or appraised value of the item will determine if it is subject to approval. For instance, in one case we tested, a land parcel was appraised at \$111,400. However, through negotiation with the land owner, DNR purchased the property for \$100,000. As a result, the land owner donated \$11,400. In that case, no one completed a gift acceptance form to approve the acceptance of the gift.

The Real Estate Management Bureau does send a waiver to the land owner. The waiver states that even though the landowner has the right to be paid fair market value based upon an appraisal, the landowner is accepting a lower price and will donate the difference. However, this procedure does not insure that the commissioner is aware of the donation nor does it officially accept the gift.

#### *Recommendation*

- *The department should complete gift acceptance forms for all land donations.*

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## Chapter 4. Payments to Indian Bands and Payments to Counties In lieu of Taxes

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### *Chapter Conclusions*

*The Department of Natural Resources (DNR) makes yearly payments to Indian bands, under the Leech Lake Agreement and 1854 Indian Treaty, and payments to counties in lieu of taxes. We reviewed the procedures DNR follows in determining and making payments. DNR payment amounts are in compliance with the Minnesota Statutes and the agreements with the Indian bands.*

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Payments to the Indian bands and payments to counties in lieu of taxes for fiscal years 1991 through fiscal year 1994 are shown in Table 4-1.

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**Table 4-1**  
**Payments to Indian Bands and Payments to Counties In lieu of Taxes**

Type of Payment	Fiscal Year			
	1991	1992	1993	1994
Leech Lake Payment	\$1,594,000	\$1,736,000	\$1,754,000	\$1,822,000
1854 Indian Treaty	\$3,386,000	\$3,388,000	\$3,672,000	\$3,708,000
Payment to counties in lieu of taxes	\$4,560,000	\$4,552,000	\$4,540,000	\$4,558,000

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Source: Statewide accounting system, vendor payment reports for each fiscal year ending June 30.

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DNR makes payments to Indian bands under the Leech Lake Agreement and 1854 Indian Treaty. These payments compensate the bands for forgoing the full exercise of their hunting, fishing, and gather rights under treaties.

DNR makes payments to counties in lieu of taxes for the lands owned and managed by the department. DNR uses lands for conservation and preservation of wild life, hunting and fishing areas, parks, trails, and other developments. Counties do not receive taxes from the lands owned and managed by the department. Subsequently, these payments are in lieu of taxes normally collected by the counties.

We reviewed payments to the Leech Lake Band, Grand Portage and Bois Forte Band Indian Treaty payments, and payments to counties in lieu of taxes. In our review we addressed following objectives:

- Were the payment amounts in compliance with the formula and the funding sources specified in the statutes;

## Department of Natural Resources

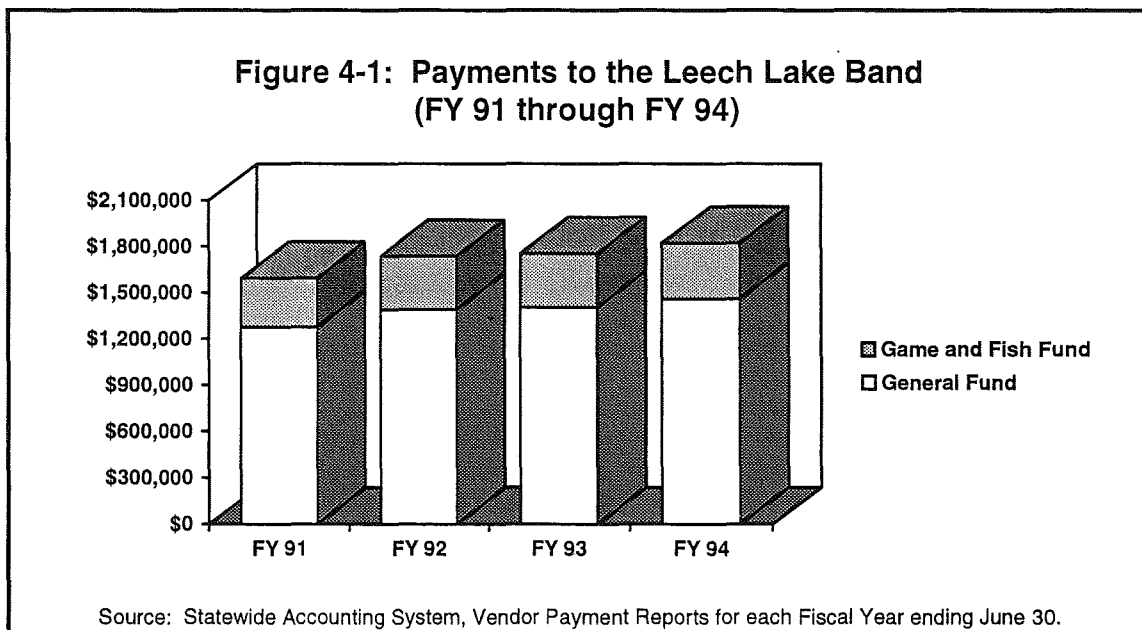
- Does the department have adequate controls over the calculation and payment process.

To meet our objectives, we reviewed the statutes pertaining to each of the payment types. Then we examined DNR's formulas and determined whether they were in compliance with the corresponding statutes. Next, we tested whether DNR employed the correct formula, and we analyzed the process DNR uses for calculating payments, and recalculated some of the payments.

### Leech Lake Reservation

The State of Minnesota and the Leech Lake Band of Chippewa have an agreement which gives recognition and effects the rights of the Leech Lake Band. The agreement preserves the band's rights relating to hunting, fishing, trapping, and the gathering of wild rice on the Leech Lake Indian Reservation. This agreement, as stated in Minn. Stat. Section 97A.15., authorizes DNR to pay five percent of the proceeds from the sale of hunting, fishing, and other licenses to the Leech Lake Band. The department bases the payment on the total amount of the license sales received during the fiscal year.

Figure 4-1 shows the payments to the Leech Lake Band from fiscal year 1991 through fiscal year 1994.



Pursuant to the Minn. Stat. Section 97A.165, DNR makes the payment in two installments. DNR pays an advance of 80 percent of the estimated amount due for the fiscal year on July 1 of each year. They pay the remaining 20 percent on August 1 of the following year. Prior to fiscal year 1995, DNR made the payment from the General Fund and the Game and Fish Fund in a 80/20 percent ratio. Starting July 1994, DNR will make the complete payment from the General Fund.

We tested the procedure of determining the amount of payment to the Leech Lake Band for fiscal year 1994. DNR complied with Minnesota Statutes in determining the amount of payment.



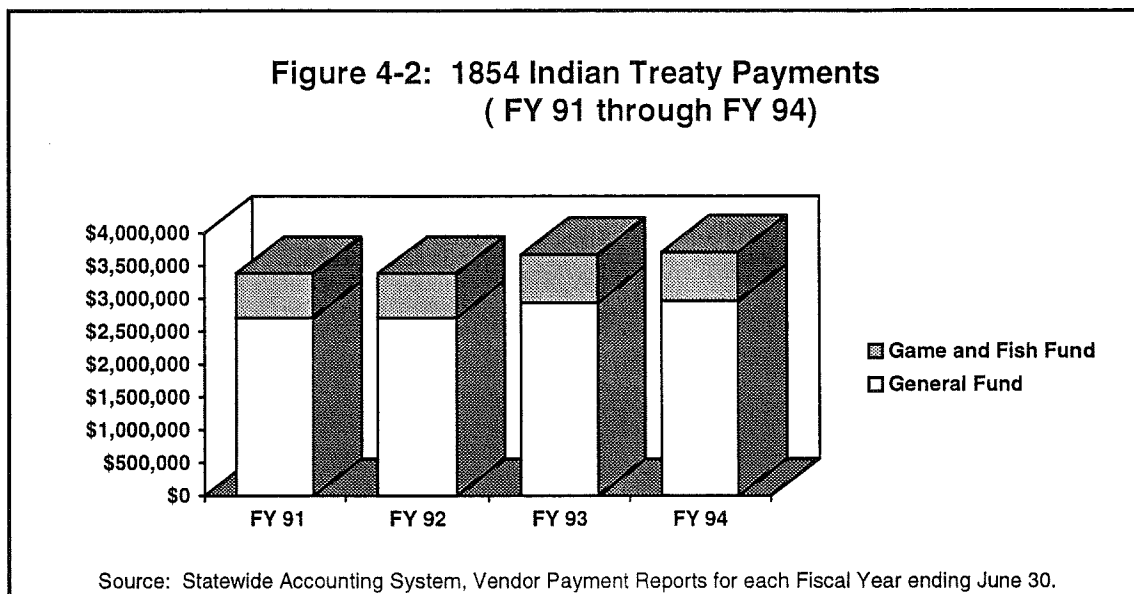
## Department of Natural Resources

DNR also complied with the payment terms of the agreement between the State of Minnesota and the Leech Lake Indian Band.

### 1854 Indian Treaty

Minn. Stat. Section 97A.157 states that the purpose of the 1854 Indian Treaty Agreement is to resolve the issues in dispute between the State of Minnesota and the Grand Portage and Bois Forte Bands of Chippewa Indians relating to hunting, fishing, trapping, and gathering in the ceded area. The original agreement also included the Fond du Lac Band. However, the Fond du Lac Band decided not to participate in the agreement in order to preserve its hunting and fishing rights.

Figure 4-2 shows the payments made under the 1854 Indian Treaty during fiscal years 1991 through 1994.



The agreement requires the state to pay \$1.6 million each to the Grand Portage Band and Bois Forte Band annually. These two bands receive additional payments equal to the amount exceeding \$1.5 million the DNR pays to the Leech Lake Band. According to the agreement, the annual payments should be made in full as soon after July 1 as possible.

After DNR determines the amount of the payment to the Leech Lake Band, the payment under the 1854 Treaty is calculated and paid in the following fiscal year. Prior to fiscal year 1995 payment was made from the General Fund and the Game and Fish Fund at an 80/20 percent ratio. Pursuant to the Minn. Stat. Section 97A.165, the fiscal year 1995 payment will be made from the General Fund.

We tested the procedure for determining the amount of payments to the Grand Portage Band and the Bois Forte Band and the amount of the fiscal year 1994 payments. The Department of Natural Resources complied with the statutory requirements for determining the amount of the

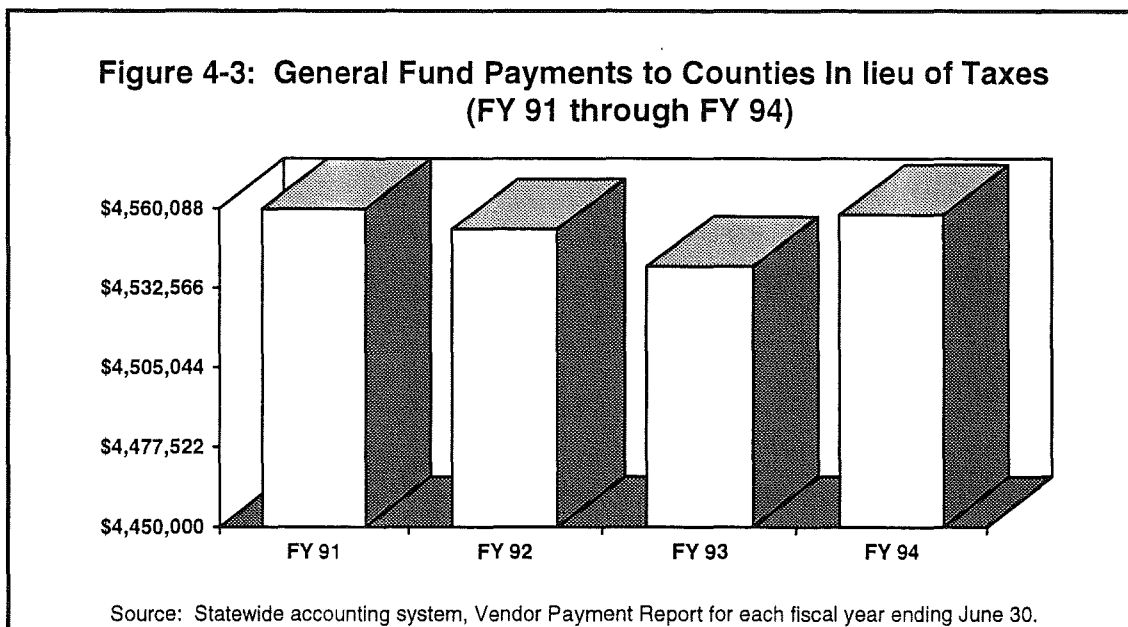
## Department of Natural Resources

payments. DNR also complied with the payment terms of the agreement between the State of Minnesota and the Grand Portage Band and the Bois Forte Band.

### Payments to Counties in Lieu of Taxes

In 1979, the legislature established a program for making payments in lieu of taxes to local governments for state-owned land. The purpose of the program was to alleviate the impact of public land ownership on local tax bases and to provide for natural resources development on county-administered land. DNR uses lands for conservation and preservation of wild life, hunting and fishing areas, parks, trails, and other developments. The formula for determining the amount of the payment is outlined in Minn. Stat. Sections 477A.11 to 13. The Real Estate Management Division processes land transactions such as buying and selling land, land exchanges, etc. When transactions are finalized, the division inputs information into the department's computer database. The division updates the database throughout the year.

Figure 4-3 shows the payments to the counties in lieu of taxes for fiscal years 1991 through 1994. Changes in the amount of land owned by DNR and changes in deductions outlined in the formula used to determine payments to counties in lieu of taxes lead to fluctuations in the calculated amounts.



Minn. Stat. Section 477A.12 requires that the county auditor certify in July of each year the county-administered lands within the county. Minn. Stat. Section 477A.13 requires DNR to make payments to counties from the General Fund during the month of July of the year following the certification. Therefore, the payments are 13 months or two fiscal years after any land transaction.

We tested the procedures of determining the amounts of direct payments to counties for the natural resources lands owned and managed by the DNR. DNR complied with the statutory requirements in determining the amount of payments.



# Minnesota Department of Natural Resources

## OFFICE OF THE COMMISSIONER

500 Lafayette Road  
St. Paul, Minnesota 55155-4037

September 20, 1995

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 findings contained in your audit of the Department of Natural Resources for F.Y. 1995.

**1. State parks do not deposit cash donations timely.**

We concur with the recommendation. We will review our procedures to ensure that significant state park gifts are deposited as promptly as possible.

*Person Responsible:* Bill Brinker, Parks and Recreation Division Business Manager

**2. The Department of Natural Resources did not document estimated land values for some donated properties.**

We concur with the recommendation. We will develop procedures to determine land values and to document the valuation. These values will be included in the land records system.


*Person Responsible:* Jim Lawler, Real Estate Management Bureau Administrator

**3. The department does not require gift acceptance forms for partial land donations.**

We concur with the recommendation. Gift acceptance forms will be provided for all land donations in excess of a threshold amount. The gift acceptance may be merged with the thank-you letter that is currently sent to the donor.

*Person Responsible:* Jim Lawler, Real Estate Management Bureau Administrator

Yours truly,

  
Rodney W. Sando  
Commissioner

cc: Jack Hirschfeld	Ray Hitchcock	Jim Lawler
Jeanine Leifeld	Roger Holmes	Bill Brinker
Ron Nargang	Bill Morrissey	Lori Christenson
Gene Gere	John Heintz	

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DNR Information: 612-296-6157, 1-800-766-6000 • TTY: 612-296-5484, 1-800-657-3929 • FAX: 612-296-4799

