

Environment and Natural Resources Trust Fund

Selected Scope Financial Audit

For the Period July 1, 1993, through February 28, 1997

September 1997

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

97-49



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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Department of Children, Families and Learning

Mr. Art Dunn, Acting Director
Office of Environmental Assistance

Mr. Peder Larson, Commissioner
Pollution Control Agency

We have audited selected projects of the Environment and Natural Resources Trust Fund for the period July 1, 1993 through February 28, 1997. Chapter 1 provides a description of the Environment and Natural Resources Trust Fund and our audit scope and objectives. Chapters 2 through 5 discuss the results of our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of internal controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the state agencies complied with provisions of laws, regulations, and contracts that are significant to the audit. State agency management is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, and contracts.

This report is intended for the information of the Legislative Audit Commission, the Legislative Commission on Minnesota Resources, and management of the Department of Natural Resources, the Department of Children, Families & Learning, the Office of Environmental Assistance, and the Pollution Control Agency. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 5, 1997.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: April 30, 1997
Report Signed On: August 28, 1997

SUMMARY

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Environment and Natural Resources Trust Fund

Selected Scope Financial Audit

For the Period July 1, 1993, through February 28, 1997

Public Release Date: September 5, 1997

No. 97-49

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 appropriates funds to state agencies for two-year projects based on the Legislative Commission on Minnesota Resources (LCMR) recommendations. For the 1994-1995 and 1996-1997 bienniums, appropriations that total \$45,595,000 were made to eleven different agencies.

Conclusions

As provided in Minn. Stat. Section 116P.04, Subd. 5, the objective of our audit was to determine if trust fund expenditures were made in accordance with legislative restrictions and for the purposes provided in the Legislative Commission on Minnesota Resources (LCMR) budget plan. We selected a sample of agencies and individual projects for review. We performed tests of project activity at the Departments of Natural Resources and Children, Families & Learning, the Office of Environmental Assistance, and the Pollution Control Agency, and selected project subgrantees.

♦ *Department of Natural Resources*

The Department of Natural Resources received 45 trust fund appropriations totaling \$38,226,000 during the 1994-1995 and 1996-1997 bienniums. We reviewed six projects funded from seven appropriations and found that, for the items tested, costs were in compliance with the budget plans, grant agreements, and applicable laws.

♦ *Department of Children, Families & Learning*

The Department of Children, Families & Learning received two trust fund appropriations totaling \$810,000 during the 1994-1995 biennium. Funds were subgranted to the Science Museum of Minnesota. We reviewed the two projects and found that, for the items tested, costs were in compliance with the budget plans, grant agreements, and applicable laws, except that subgrantee project expenditures included allocations for indirect costs. Program guidelines at the time the projects were funded did not address the allowability of indirect costs. Guidelines for the subsequent biennium disallowed the allocation of indirect costs.

♦ *Minnesota Office of Environmental Assistance*

The Minnesota Office of Environmental Assistance received three trust fund appropriations totaling \$800,000 for trust fund projects during the 1996-1997 biennium. We reviewed two projects and found that, for the items tested, costs were in compliance with the budget plans, grant agreements, and applicable laws.

♦ *Pollution Control Agency*

The Pollution Control Agency received three trust fund appropriations totaling \$1,550,000 for trust fund projects during the 1994-1995 and 1996-1997 bienniums. We reviewed the three projects and found that, for the items tested, costs were in compliance with the budget plans, grant agreements, and applicable laws, except for \$6,000 in rental charges to one of the projects.

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
Rhonda Regnier, CPA	Auditor-In-Charge
Sonya Hill, CPA	Auditor-In-Charge
Scott Tjomsland	Auditor
Richard Weinmeyer	Auditor

Exit Conference

We discussed the results of the audit with the staff of the following agencies/entities:

Department of Natural Resources
Department of Children, Families & Learning
Science Museum of Minnesota
Minnesota Office of Environmental Assistance
Pollution Control Agency

Environment and Natural Resources Trust Fund

Chapter 1. Background

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.

Net proceeds from the Minnesota State Lottery are deposited to the trust fund each month. The State Board of Investment invests trust fund moneys pursuant to Minn. Stat. Section 11A.24. Investment income is available for expenditure. In addition, for each biennium through 1997, the Legislature has authorized expenditure of varying percentages of additional revenue within the constitutional limitation.

Table 1-1 shows the trust fund corpus financial activity for fiscal years 1994 through 1996.

Table 1-1
Environment and Natural Resources Trust Fund
Nonexpendable Trust Fund
Summary of Financial Activity
Three Years Ended June 30, 1996

	Year Ended June 30		
	1994	1995	1996
Beginning Fund Balance	\$59,720,231	\$78,009,468	\$ 97,165,716
Lottery Proceeds	23,747,699	24,511,148	25,876,388
Investment Income	3,957,588	5,179,085	8,570,000
Net Transfers Out - Note	(9,416,050)	(10,533,985)	(11,984,126)
Ending Fund Balance	<u>\$78,009,468</u>	<u>\$97,165,716</u>	<u>\$119,627,978</u>

Note: Pursuant to constitutional and statutory provisions, transfers were made to an Expendable Trust Fund for expenditure in accordance with appropriation restrictions. Any appropriated funds not encumbered in the biennium for which they were appropriated canceled and were transferred back to the trust fund corpus.

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

Environment and Natural Resources Trust Fund

During our annual statewide audits, 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.

The Legislative Commission on Minnesota Resources (LCMR), consisting of 16 members of the Legislature, 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 staff to assist in its responsibilities. Mr. John Velin currently serves as LCMR director.

As provided in Minn. Stat. Section 116P.03, the trust fund is intended to supplement traditional sources of funding for environmental and natural resource activities. Biennially, state agencies and other entities submit proposed projects to LCMR for review and approval. The Legislature appropriates funds to state agencies for two-year projects based on LCMR recommendations. Table 1-2 shows the level of trust fund appropriations by agency for the 1994-1995 and 1996-1997 bienniums.

Table 1-2
Environment and Natural Resources Trust Fund
Fiscal Year 1994-1997 Appropriations

<u>Department</u>	<u>1994 - 1995 Biennium</u>		<u>1996 - 1997 Biennium</u>	
	<u>No. of Projects</u>	<u>Appropriation Amount</u>	<u>No. of Projects</u>	<u>Appropriation Amount</u>
Natural Resources	26	\$23,996,000	19	\$14,230,000
Pollution Control Agency	2	1,300,000	1	250,000
Strategic and Long Range Planning			3	1,000,000
Children, Families and Learning	2	810,000		
Environmental Assistance			3	800,000
Board of Water and Soil Resources	1	500,000	3	635,000
Administration	1	710,000		
University of Minnesota	1	425,000		
Agriculture	1	175,000		
Transportation			1	100,000
LCMR Administration	<u>1</u>	<u>270,000</u>	<u>1</u>	<u>394,000</u>
Total	<u>35</u>	<u>\$28,186,000</u>	<u>31</u>	<u>\$17,409,000</u>

Source: Laws of Minnesota 1993-1996.

State agencies receiving trust fund appropriations are responsible for administering approved projects and, if applicable, monitoring flow-through grants to other entities. 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.

Environment and Natural Resources Trust Fund

Table 1-3 shows financial activity for the expendable portion of the trust fund for fiscal years 1994 through 1996.

Table 1-3
Environment and Natural Resources Trust Fund
Expendable Trust Fund
Summary of Financial Activity
Three Years Ended June 30, 1996

	Year Ended June 30		
	1994	1995	1996
Beginning Fund Balance	\$ 9,931,505	\$11,790,340	\$10,272,886
Revenue and Other Sources:			
Net Transfers-In - Note	\$ 9,416,050	\$10,533,985	\$11,984,126
Investment Income	379,831	525,429	279,242
Other Revenues	75,667	322,605	177,320
Total Revenue and Other Sources	<u>\$ 9,871,548</u>	<u>\$11,382,019</u>	<u>\$12,440,688</u>
Expenditures:			
Current Expenditures	\$ 4,836,929	\$ 6,625,477	\$ 5,280,596
Capital Outlay	875,878	3,701,358	3,107,060
Grants	2,299,906	2,572,638	3,320,271
Total Expenditures	<u>\$ 8,012,713</u>	<u>\$12,899,473</u>	<u>\$11,707,927</u>
Ending Fund Balance	<u>\$11,790,340</u>	<u>\$10,272,886</u>	<u>\$11,005,647</u>

Note: Pursuant to constitutional and statutory provisions, transfers were made from the trust fund corpus for expenditure in accordance with appropriation restrictions. Any appropriated funds not encumbered in the biennium for which they were appropriated canceled and were returned to the Nonexpendable Trust Fund.

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

As provided in Minn. Stat. Section 116P.04, Subd. 5, the objective of our audit was to determine if trust fund expenditures were made in accordance with legislative restrictions and for the purposes provided in the Legislative Commission on Minnesota Resources (LCMR) budget plan. To accomplish this objective, we interviewed LCMR staff to gain an understanding of the budget plan and the policies and procedures established to control expenditures. We then selected a sample of departments and individual projects for further review. We selected projects to review based on materiality and the number of projects in a department. We also focused on departments that had not been reviewed in our previous audits of trust fund projects.

We performed tests of project activity at the Department of Natural Resources, the Department of Children, Families & Learning, the Office of Environmental Assistance, and the Pollution Control Agency. We also reviewed supporting documentation for certain expenditures incurred by project subgrantees. We tested compliance with provisions of laws, contracts, and grant agreements related to the Environment and Natural Resources Trust Fund. Our review covered projects funded for the 1994-1995 and 1996-1997 bienniums with financial activity from July 1, 1993, through February 28, 1997. We discuss our specific conclusions on the projects reviewed in Chapters 2 through 5.

Environment and Natural Resources Trust Fund

As discussed in the individual chapters, for some projects, the Legislature appropriates funds to a state agency for subsequent grants to or contracts with other entities. Funds for some of the projects flowed through several layers of government before reaching the entity ultimately responsible for administering the activity. The role of state agencies and other levels of government in monitoring subgrantee financial activities is unclear. The issue is further complicated because LCMR plays a strong role in reviewing and monitoring project activities. We observed varying levels of monitoring activities by the state agencies. These ranged from processing a subgrantee's reimbursement request to reviewing complete supporting expenditure documentation. The current legal provisions and program guidelines do not address a state agency's level of responsibility for these pass-through grants. LCMR should consider defining the state agencies' role for these projects. Also, when recommending future appropriations, LCMR should consider the need to have funds pass through several levels of government.

Environment and Natural Resources Trust Fund

Chapter 2. Department of Natural Resources

Chapter Conclusions

We reviewed six Department of Natural Resources projects funded from the Environment and Natural Resources Trust Fund during the 1994-1995 and 1996-1997 bienniums. For the items tested, project expenditures complied with applicable legal provisions and the purposes outlined in the work plan submitted to the Legislative Commission on Minnesota Resources. In instances where there were unexpended appropriations at the end of the biennium, funds were appropriately canceled.

The Department of Natural Resources received 45 trust fund appropriations totaling \$38,226,000 for trust fund projects during the 1994-1995 and 1996-1997 bienniums. These projects encompassed various priorities including management approaches, recreation, parks and trails, water, and fisheries. As of February 28, 1997, expenditures for these projects totaled \$30,405,513. We reviewed six projects, funded from seven appropriations, with expenditures totaling \$9,036,183.

Lilydale/Harriet Island Regional Park Trail (1994-1995)

The purpose of this project was to plan and construct a pedestrian bicycle trail in the Lilydale/Harriet Island Regional Park. Pursuant to the appropriation law, the Department of Natural Resources contracted with the Metropolitan Council, which contracted with the City of St. Paul, to conduct the project. The Lilydale/Harriet Island Regional Park project expenditures exceeded the appropriation amount. However, the city could only claim reimbursement for expenditures up to a maximum of \$246,000.

Table 2-1
Lilydale/Harriet Regional Island Park Trail
Financial Status as of February 28, 1997

Appropriation	\$246,000
Grant expenditures reimbursing for:	
Construction	\$218,343
Design and engineering	26,000
Other	<u>1,657</u>
Total Expenditures	<u>\$246,000</u>
Appropriation Balance	<u>\$ 0</u>

Source: Statewide Accounting System accounting reports and detailed transactions as of October 1995.

Environment and Natural Resources Trust Fund

We reviewed supporting documentation for expenditures incurred by the City of St. Paul. Our review of activity through February 28, 1997, showed that, for the items tested, costs were in compliance with the budget plan, grant agreements, and applicable laws.

Birch Lake Regional Bikeway/Walkway (1994-1995)

The purpose of this project was to develop a bikeway/walkway linking trunk highway 96 regional bikeway in White Bear Lake with the Tamarack Nature Center and business centers and a trailside interpretive program. This project was contingent upon the facility being designated part of the metropolitan regional park and open space system. Pursuant to the appropriation law, the Department of Natural Resources contracted with the Metropolitan Council for a subgrant to Ramsey County, which cooperated with the city of White Bear Lake to develop the bikeway/walkway.

Table 2-2
Birch Lake Regional Bikeway/Walkway
Financial Status as of February 28, 1997

Appropriation	\$450,000
Grant expenditures reimbursing for:	
Construction	\$438,618
Other	<u>5,185</u>
Total Expenditures	<u>\$443,803</u>
Canceled Appropriation Balance	<u>\$ 6,197</u>

Source: Statewide Accounting System accounting reports and detailed transactions as of October 1995.

We reviewed supporting documentation for expenditures incurred by the city of White Bear Lake. Our review of activity through February 28, 1997, showed that, for the items tested, costs were in compliance with the budget plan, grant agreements, and applicable laws.

State Trail Development (1994-1995)

The purposes of this project included development of the Paul Bunyan Trail, development of an abandoned railroad grade between Barnum and Carlton, and acquisition and development of a trail connection from Harmony to the Root River State Trail.

Environment and Natural Resources Trust Fund

Table 2-3
State Trail Development
Financial Status as of February 28, 1997

Appropriation	\$2,327,000
Expenditures:	
Land and land improvements	\$1,979,664
Architecture, engineering and other services	208,109
Supplies and materials	26,306
Other	<u>51,306</u>
Total Expenditures	<u>\$2,265,385</u>
Canceled Appropriation Balance	<u>\$ 61,615</u>

Source: Statewide Accounting System and Minnesota Accounting and Procurement System accounting reports and detailed transactions as of February 28, 1997.

Our review of activity through February 28, 1997, showed that, for the items tested, costs were in compliance with the budget plan and applicable laws.

State Park Betterment (1994-1995)

The purpose of this project was to develop, improve, and rehabilitate state park facilities to meet growing user demand as well as to prevent further deterioration of historically significant structures. This project was funded from two appropriations in the 1994-1995 biennium.

Table 2-4
State Park Betterment
Financial Status as of February 28, 1997

Appropriations:	
Laws of 1993	\$3,000,000
Laws of 1994	<u>650,000</u>
Total Appropriations	<u>\$3,650,000</u>
Expenditures:	
Personnel services	\$ 159,905
Professional and purchased services	425,094
Supplies and materials	215,999
Land improvements	436,059
Buildings and building repairs	2,388,904
Other	<u>22,567</u>
Total Expenditures	<u>\$3,648,528</u>
Canceled Appropriation Balance	<u>\$ 1,472</u>

Source: Statewide Accounting System and Minnesota Accounting and Procurement System accounting reports and detailed transactions as of February 28, 1997.

Environment and Natural Resources Trust Fund

Our review of activity through February 28, 1997, showed that, for the items tested, costs were in compliance with the budget plan and applicable laws.

Reinvest In Minnesota (RIM) Statewide Fisheries Habitat Development (1994-1995)

The purpose of this project was to develop trout, walleye, and small mouth bass habitat in streams, to remove the Flandrau Dam to allow migration of fish, and to install aeration systems on winterkill-prone lakes.

Table 2-5
RIM Fisheries Habitat Development
Financial Status as of February 28, 1997

Appropriation	\$687,000
Expenditures:	
Personnel services	\$131,124
Professional and purchased services	238,641
Supplies and materials	231,342
Travel	5,483
Other	<u>71,522</u>
Total Expenditures	<u>\$678,112</u>
Canceled Appropriation Balance	<u>\$ 8,888</u>

Source: Statewide Accounting System and Minnesota Accounting and Procurement System accounting reports and detailed transactions as of February 28, 1997.

Our review of activity through February 28, 1997, showed that, for the items tested, costs were in compliance with the authorized work plan and applicable laws.

State Park and Recreation Area Acquisition, Development, Betterment, and Rehabilitation (1996-1997)

The purpose of this project was to acquire privately owned land within state parks and recreation areas, to construct an interpretive center at Fort Snelling state park, and to implement projects for the betterment and rehabilitation of state parks and recreation areas.

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Table-2-6
State Park and Recreation Area Acquisition, Development, Betterment and Rehabilitation
Financial Status as of February 28, 1997

	<u>Acquisition</u>	<u>Development</u>	<u>Betterment & Rehabilitation</u>
Appropriation	\$1,070,000	\$680,000	\$1,400,000
Expenditures:			
Land and buildings	\$ 873,208	\$110,550	\$ 97,812
Purchased services	161,739	15,000	236,672
Repairs	0	0	71,765
Supplies and equipment	0	0	67,149
Personnel services	0	0	47,473
Other	<u>35,053</u>	<u>27,000</u>	<u>10,934</u>
Total Expenditures	<u>\$1,070,000</u>	<u>\$ 152,550</u>	<u>\$ 531,805</u>
Remaining Appropriation Balance	<u>\$ 0</u>	<u>\$ 527,450</u>	<u>\$ 868,195</u>

Source: Minnesota Accounting and Procurement System accounting reports and detailed transactions as of February 28, 1997.

Our review of activity through February 28, 1997 showed that, for the items tested, costs were in compliance with the authorized work plan and applicable laws.

Environment and Natural Resources Trust Fund

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Chapter 3. Department of Children, Families & Learning Subgrants to the Science Museum of Minnesota

Chapter Conclusions

We reviewed two appropriations to the Department of Children, Families & Learning. The department contracted with the Science Museum of Minnesota to conduct the projects. For the items tested, the Science Museum of Minnesota's expenditures for these two projects complied with applicable LCMR work plans and appropriation laws. Any unexpended appropriation balance for the completed projects was appropriately canceled. Project expenditures included allocations for indirect costs. Program guidelines for the 1994-1995 biennium, during which these projects were funded, did not specifically address the allowability of indirect costs. Guidelines for the subsequent biennium disallowed the allocation of indirect costs based on an established rate.

The Department of Children, Families & Learning (CFL) received trust fund appropriations of \$810,000 for two environmental education projects during the 1994-1995 biennium. As of February 28, 1997, both projects were complete and project expenditures totaled \$805,569. As provided in the appropriation law, CFL contracted with the Science Museum of Minnesota to complete work for both of the projects. We reviewed the CFL and Science Museum's supporting documentation for project expenditures.

The On-Line Museum: Computer and Interactive Video (1994-1995)

The purpose of this project was to create a touch-screen interactive video database for selected Minnesota cultural and natural history collections. The project also provided a prototype for a unique learning experience in environmental education for Science Museum visitors and school children.

Table 3-1
On-Line Museum Project
Financial Status as of February 28, 1997

Appropriation Amount	\$260,000
Grant expenditures reimbursing for:	
Designing image system	\$ 76,239
Creating database	74,559
Indirect Costs	56,591
Producing public information consoles	48,180
Total Expenditures	<u>\$255,569</u>
Canceled Appropriation Balance	<u>\$ 4,431</u>

Source: Statewide Accounting System accounting reports and detailed transactions as of October 1995.

Environment and Natural Resources Trust Fund

We reviewed supporting documentation for project expenditures at the Science Museum of Minnesota. Our review of activity through February 28, 1997, indicates that, except for the issue discussed in Finding 1, for the items tested, expenditures were in compliance with the LCMR work plan, grant agreements, and applicable laws.

1. The Science Museum of Minnesota charged indirect costs to the on-line museum project.

The Science Museum of Minnesota project expenditures included indirect costs of \$56,591, calculated at 40.9 percent of direct costs, which was the Science Museum's federally approved indirect cost rate. LCMR guidelines for the 1994-1995 biennium, during which this project was funded, did not address the allowability of indirect costs. In addition, the contracts and work plans identified costs by project objectives and tasks rather than by type of expenditure. The Department of Children, Families & Learning did not question the inclusion of indirect costs in project expenditures. The guidelines and contract language for the subsequent biennium disallow the allocation of indirect costs to projects. However, certain administrative or operating costs traditionally included in indirect cost rates can be directly charged, if related to the project.

Recommendation

- *The Science Museum of Minnesota should work with LCMR to determine the propriety of indirect costs charged to the project.*

Green Street: An Urban Environmental Awareness Project (1994-1995)

The purpose of this project was to develop a comprehensive, coordinated urban environmental education project. The project established an exhibit and outreach program focused on revealing the links between modern lifestyles and major environmental issues. As provided in the appropriation, CFL contracted with the Science Museum of Minnesota to complete this project. The Science Museum of Minnesota also received funding from Northern States Power and the U.S. Department of Education for this project.

Table 3-2
Green Street Project
Financial Status as of February 28, 1997

Appropriation Amount	\$550,000
Grant expenditures reimbursing for:	
Producing exhibits	\$199,947
Public programming/demonstration	152,838
Indirect costs	139,552
Student/teacher training	<u>57,663</u>
Total Expenditures	<u>\$550,000</u>
Appropriation Balance	<u>\$ 0</u>

Source: Statewide Accounting System accounting reports and detailed transactions as of October 1995.

We reviewed supporting documentation for project expenditures at the Science Museum of Minnesota. Our review of activity through February 28, 1997, indicates that, for the items tested,

Environment and Natural Resources Trust Fund

expenditures were in compliance with the LCMR work plan, grant agreements, and applicable laws.

2. The Science Museum of Minnesota charged indirect costs to the Green Street project.

Project expenditures included indirect costs of \$139,552, calculated at 34 percent of direct costs. The amount charged was less than the federally approved indirect cost rate because of the contract limit on total project costs. As discussed in Finding 1, LCMR guidelines for the 1994-1995 biennium did not address the allowability of indirect costs. The guidelines and contract language for the subsequent biennium disallow the allocation of indirect costs to projects based on an established rate.

Recommendation

- *The Science Museum of Minnesota should work with LCMR to determine the propriety of indirect costs charged to the project.*

Environment and Natural Resources Trust Fund

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Chapter 4. Minnesota Office of Environmental Assistance

Chapter Conclusions

We reviewed two of the three LCMR projects at the Office of Environmental Assistance and found that, for the items tested, expenditures were in compliance with LCMR work plans, grant agreements, and applicable laws.

The Office of Environmental Assistance received project appropriations of \$800,000 for three environmental education projects in the 1996-1997 biennium. As of February 28, 1997, project expenditures totaled \$445,714. We reviewed two of the projects administered by the agency with expenditures of \$294,005 as of February 28, 1997.

Leopold Education Project Curriculum (1996-1997)

The purpose of this project was to provide teacher training in the use of the Leopold education project conservation ethics curriculum. In accordance with the appropriation law, the agency subgranted project funds to Pheasants Forever, Inc. The appropriation required Pheasants Forever, Inc. to match trust fund moneys with \$50,000 of non-state money. The Office of Environmental Assistance required the subgrantee to submit detailed documentation for project expenditures.

Table 4-1
Leopold Education Project
Financial Status as of February 28, 1997

Appropriation amount	\$100,000
Grant expenditures reimbursing for:	
Teacher training	<u>32,701</u>
Remaining appropriation balance:	
Grant agreement	<u>\$ 67,299</u>

Source: Minnesota Accounting and Procurement System accounting reports and detailed transactions as of February 28, 1997.

We tested support for expenditures reported by Pheasants Forever, Inc. Our review of activity through February 28, 1997, indicates that, for the items tested, expenditures were in compliance with the LCMR work plan, grant agreements, and applicable laws. Pheasants Forever, Inc. provided documentation for the required match.

Environment and Natural Resources Trust Fund

Environmental Education Teacher Training Project (1996-1997)

The purpose of this project was to develop and deliver statewide environmental education training for preservice and inservice teachers. The Office of Environmental Assistance, in conjunction with ten colleges and universities, created environmental education courses that were relevant and accessible to teachers. The ten colleges and universities involved were Bemidji State University, Concordia College, Hamline University, Mankato State University, Moorhead State University, St. Cloud State University, University of Minnesota - Duluth, University of Minnesota - Morris, University of Minnesota - Twin Cities, and Winona State University. Teachers completing the courses would receive certification as environmental education teachers.

Table 4-2
Environmental Education Teacher Training Project
Financial Status as of February 28, 1997

Appropriation Amount	\$500,000
Expenditures:	
Educational institution grants	\$140,046
Personnel services	61,801
Educational and instructional services	19,908
Travel	16,658
Purchased services	11,388
Other	<u>11,503</u>
Total Expenditures	<u>\$261,304</u>
Remaining Appropriation Balance:	
Educational institution grants	\$127,424
Other	<u>111,272</u>
Total Remaining Appropriation Balance	<u>\$238,696</u>

Source: Minnesota Accounting and Procurement System accounting reports and detailed transactions as of February 28, 1997.

Our review of activity through February 28, 1997, showed that, for the items tested, expenditures were in compliance with the LCMR work plan, grant agreements, and applicable laws.

Chapter 5. Pollution Control Agency

Chapter Conclusions

We reviewed three trust fund projects at the Pollution Control Agency and found that, except for \$6,000 for rent charged to one project, for the items tested, expenditures were in compliance with LCMR work plans, grant agreements, and applicable laws. Any unexpended appropriation balance for completed projects was appropriately canceled.

The Pollution Control Agency received trust fund appropriations of \$1,300,000 for two water projects in the 1994-1995 biennium and \$250,000 for one urban natural resources project in the 1996-1997 biennium. As of February 28, 1997, the Pollution Control Agency had expended \$1,455,412 on these three projects. We reviewed expenditures for all three projects.

Minnesota River Implementation - Continuation (1994-1995)

The Pollution Control Agency received an appropriation of \$1,100,000 for a continuation of the Minnesota River Implementation project. The purpose of this project was to accelerate the adoption of the best management practices and to accelerate related state and local implementation activities for the Minnesota river basin.

Table 5-1
Minnesota River Implementation - Continuation
Financial Status as of February 28, 1997

Appropriation Amount	\$1,100,000
Expenditures:	
Grants to other governmental units	\$ 599,585
Grants to counties	348,358
Personnel services	118,166
Rent	6,000
Consultant and professional services	9,507
Travel, meals, and registration fees	2,381
Supplies, materials, and equipment	6,452
Other	1,129
Total Expenditures	<u>\$ 1,091,578</u>
Canceled Appropriation Balance	<u>\$ 8,422</u>

Source: Statewide Accounting System and Minnesota Accounting and Procurement System accounting reports and detailed transactions as of February 28, 1997.

Environment and Natural Resources Trust Fund

Our review of activity through February 28, 1997, showed that, except for the issue discussed in Finding 3, for the items tested, expenditures were in compliance with applicable laws and the LCMR work plan.

3. The basis for \$6,000 in rental charges to the project is questionable.

The Pollution Control Agency charged \$6,000 for rental of office and parking space to the project. Documentation of the basis and rationale for this expenditure was limited. The department treated its space costs similar to an indirect cost pool and allocated a portion of its total annual rent charges to this project based on the number of employees working on the project. LCMR guidelines for the 1994-1995 biennium, during which this project was funded, did not address the allowability of indirect costs. The guidelines and contract language for the subsequent biennium disallow the allocation of indirect costs to projects.

Recommendation

- *The Pollution Control Agency should work with LCMR to resolve the \$6,000 in questioned rental charges.*

Mercury Reduction in Fish - Continuation (Phase II) (1994-1995)

The purpose of this project was to investigate mechanisms of mercury bioavailability and develop methods for reducing fish mercury contamination in lakes and rivers. The Pollution Control Agency subgranted funds to the University of Minnesota to complete the pilot studies testing mercury reduction in fish. The purpose of these studies was to enhance the quality of Minnesota's fish resources and reduce mercury usage and emissions. The University of Minnesota also received funding for the project from the U.S. Environmental Protection Agency.

Table 5-2
Mercury Reduction in Fish - Continuation (Phase II)
Financial Status as of February 28, 1997

Appropriation Amount	\$200,000
Grant expenditures reimbursing for:	
Surveys and sampling	\$ 10,000
Field testing	30,000
Testing after applied treatments	<u>160,000</u>
Total Expenditures	<u>\$200,000</u>
Appropriation Balance	<u>\$ 0</u>

Source: Statewide Accounting System accounting reports and detailed transactions as of October 1995.

Our review of activity through February 28, 1997, showed that, for the items tested, expenditures were in compliance with the LCMR work plan, the grant agreement, and applicable laws.

Environment and Natural Resources Trust Fund

Metropolitan Area Groundwater Model to Predict Contaminant Movement (1996-1997)

The purpose of this project was to develop and apply a tool to improve prediction of contaminant movement in groundwater at contamination sites in the metropolitan area using a flexible regional groundwater model. The Pollution Control Agency contracted with the University of Minnesota to complete a portion of the project.

Table 5-3
Metropolitan Area Groundwater Model
Financial Status as of February 28, 1997

Appropriation Amount	\$250,000
Expenditures:	
Personnel services	\$ 77,991
Contracted services - University of Minnesota	80,000
Tuition and fees	1,942
Supplies and equipment	3,245
Other	601
Total Expenditures	<u>\$163,779</u>
Remaining Appropriation Balance:	
University of Minnesota Contract	\$ 46,000
Other	40,166
Total Remaining Appropriation Balance	<u>\$ 86,221</u>

Source: Minnesota Accounting and Procurement System accounting reports and detailed transactions as of February 28, 1997.

Our review of activity through February 28, 1997, indicated that, for the items tested, costs were in compliance with the LCMR work plan, contract agreements, and applicable laws.

Environment and Natural Resources Trust Fund

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Discovery begins here

August 18, 1997

Office of Legislature Auditor
James Nobles, Legislature Auditor
Centennial Building
658 Cedar Street
St. Paul, MN 55155

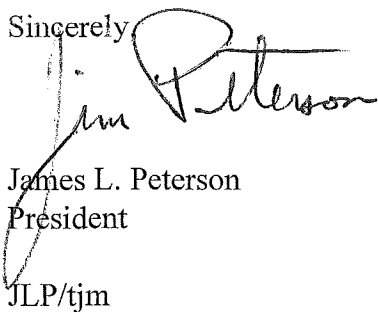
Dear Mr. Nobles:

I am writing in response to the letter from Claudia Gudvangen, dated July 23, 1997, regarding the audit recommendation by your staff for grants received for the 1994-95 biennium from LCMR. Thank you for providing the opportunity to comment.

As suggested, the Science Museum has contacted LCMR's John Velin to discuss the audit findings regarding indirect costs for the On-Line Museum and Green Street projects. He confirmed that, in as much as LCMR guidelines during that biennium did not prohibit charges for indirect costs, the Science Museum's request to be reimbursed for them was indeed appropriate. As a result of my conversation with Mr. Velin, it would be appreciated if you would amend the draft audit report to reflect this confirmation.

If you have any questions or concerns, please call me at 221-4713.

Sincerely

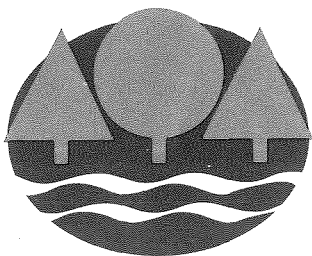


James L. Peterson
President
JLP/tjm



Environment and Natural Resources Trust Fund

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Minnesota Pollution Control Agency

August 18, 1997

Mr. James R. Nobles
Legislative Auditor
Centennial Building
658 Cedar Street
St. Paul, Minnesota 55155

Dear Mr. Nobles:

I would like to thank you and your staff for the work just completed on an audit of the Minnesota Pollution Control Agency for selected projects of the Environmental and Natural Resources Trust Fund for the period July 1, 1993 through February 28, 1997. We are always looking for ways to improve our operations and feel that audits can assist in this endeavor.

Your audit had one recommendation: "The Pollution Control Agency should work with LCMR to resolve the \$6,000 in questioned rental charges". We have acted on this recommendation and have met with John Velin and Dave Flipp of the Legislative Commission of Minnesota Resources to discuss costs of managing these projects and the issue of indirect.

We explained our practice of charging a rent cost to LCMR projects based on Full-Time Equivalent positions in lieu of an indirect rate. John Velin and Dave Flipp concurred that the rent was a reasonable cost and felt comfortable with the charge. They also recognized that, even though agencies are not allowed to charge an indirect rate to the projects, they are able to request costs included in an indirect rate that, like the rent charge, could be reasonably allocated to the project. They recommended that we review our costs of managing LCMR projects and include these costs in addition to the rent in our LCMR projects. Our agency will be reviewing this from a cost-benefit perspective.

Sincerely,

Kristin Applegate
for Peder A. Larson
Commissioner

PAD:dmh

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