

# **Board of Water and Soil Resources**

## **Financial Audit**

**For the Two Fiscal Years Ended June 30, 1997**

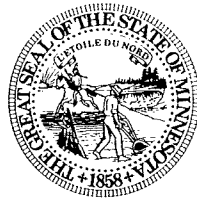
**May 1998**

*This document can be made available in  
alternative formats, such as large print,  
Braille, or audio tape, by calling 296-1727.*

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

**98-32**





STATE OF MINNESOTA  
**OFFICE OF THE LEGISLATIVE AUDITOR**  
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Deanna Wiener, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission


Ms. Kathleen Roer, Chair  
Board of Water and Soil Resources

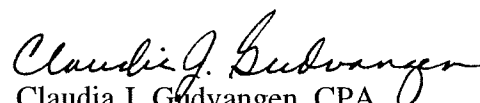
Mr. Ronald Harnack, Executive Director  
Board of Water and Soil Resources

We have audited the Board of Water and Soil Resources for the period July 1, 1995, through June 30, 1997. As explained in Chapter 1, our audit scope included the following areas: easements, grants, payroll, travel, and per diem expenditures. The following Summary highlights the audit objectives and conclusions. We discuss these issues more fully in the individual chapters of this report.

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 management controls relevant to the audit. The standards require that we design the audit to provide reasonable assurance that the Board of Water and Soil Resources complied with the provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of the Board of Water and Soil Resources is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the 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 May 14, 1998.

  
James R. Nobles  
Legislative Auditor

  
Claudia J. Gudvangen, CPA  
Deputy Legislative Auditor

End of Fieldwork: April 15, 1998

Report Signed On: May 8, 1998



# SUMMARY

State of Minnesota  
Office of the Legislative Auditor  
1st Floor Centennial Building  
658 Cedar Street • St. Paul, MN 55155  
(612)296-4708 • FAX (612)296-4712  
TDD Relay: 1-800-627-3529  
email: [auditor@state.mn.us](mailto:auditor@state.mn.us)  
URL: <http://www.auditor.leg.state.mn.us>

---

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

### **Financial Audit For the Two Fiscal Years Ended June 30, 1997**

Public Release Date: May 14, 1998

No. 98-32

---

#### **Department Background**

The Board of Water and Soil Resources (BWSR) was created by the Legislature in 1987. The board consists of 17 voting members who are appointed by the Governor. The agency's mission is to provide leadership enabling local governments to properly manage water and soil resources and to help citizens be stewards of natural resources. BWSR administers a number of grant programs that provide funding to local governments for resource management and provides technical assistance to local governments. BWSR also promotes communications and partnerships between the various levels of government and private organizations. The executive director is Mr. Ronald Harnack.

#### **Scope and Conclusions**

Our audit scope included a review of the following areas: grants, easements, payroll, travel, and per diem expenditures for the years ended June 30, 1996 and 1997.

We concluded that the Board of Water and Soil Resources designed internal controls to provide reasonable assurance that easement and grant payments were properly authorized and calculated and accurately recorded in the state's accounting records. Payroll, travel and per diem expenditures were properly authorized, accurately supported, and in accordance with applicable employee bargaining unit agreements.



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

---

### **Table of Contents**

---

	Page
Chapter 1. Introduction	1
Chapter 2. Easements	2
Chapter 3. Grants	4
Chapter 4. Payroll	7
Chapter 5. Travel and Per Diem	8
Status of Prior Audit Issues	9

### **Audit Participation**

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Renee Redmer, LPA	Audit Manager
Sonya Hill, CPA	Auditor-in-Charge
Brad Falteysek	Staff Auditor

### **Exit Conference**

We discussed the results of the audit at an exit conference with the following Board of Water and Soil Resources staff on May 8, 1998:

Ronald Harnack	Executive Director
Jim Birkholz	Assistant Director
Kathleen Roer	Chair
Thomas Schwanke	Business Manager
Wayne Zellmer	Grants Coordinator
Keith Bogut	Executive Budget Officer
Helen Bohrer	Accounting Clerk Senior
Mary Miller	Accounting Technician





# **Board of Water and Soil Resources**

---

## **Chapter 1. Introduction**

---

The Board of Water and Soil Resources (BWSR) was created by the Legislature in 1987 when the following entities merged: Water Resources Board, Soil and Water Conservation Board, and Southern Minnesota River Basins Council. BWSR has a central office in St. Paul and seven regional offices located in Brainerd, Duluth, Bemidji, New Ulm, Rochester, Marshall, and St. Paul. BWSR employs about 65 staff. The governing board consists of 17 voting members who are appointed by the Governor. Five board members include the commissioners of the Departments of Agriculture, Health, Natural Resources, the Pollution Control Agency, and the director of the University of Minnesota extension service. The current executive director, Mr. Ronald Harnack, was appointed by the board.

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 citizens become stewards of the state's natural resources. BWSR administers several grants and technical assistance programs for soil and water conservation districts, watershed management organizations, watershed districts, and counties. The board also administers conservation easement programs and pays landowners to take environmentally sensitive, marginal, and fragile land out of agricultural production.

The Board of Water and Soil Resources activities were mainly funded by appropriations from the General, Building, Environment and Natural Resources Trust, and Minnesota Future Resources Funds. BWSR received General Fund appropriations of \$14,974,000 and \$14,802,000 for fiscal years 1996 and 1997, respectively. General Fund appropriations were mainly for payroll and other administrative costs of the central and regional offices. BWSR used General Fund resources for grants and technical support for local agencies. Fiscal year 1997 appropriations from the Building Fund of \$14,750,000 were used to purchase easements. The easement appropriations are available until projects are finalized which may take several years. Fiscal year 1997 appropriations of \$990,000 from the Environment and Natural Resources Trust and Minnesota Future Resources Funds were designated for specific projects. These funds are available for expenditures through fiscal year 1998.

# Board of Water and Soil Resources

---

## Chapter 2. Easements

---

### *Chapter Conclusions*

*The Board of Water and Soil Resources designed internal controls to provide reasonable assurance that easement payments were properly authorized, calculated, and recorded in the accounting records for the Reinvest in Minnesota, Wetland Restoration, and Permanent Wetlands Preserve programs. For items tested, easement expenditures were made in accordance with material finance-related legal provisions.*

---

The Board of Water and Soil Resources (BWSR) administers several easement programs. Easement expenditures totaled \$2,504,000 in fiscal year 1996 and \$4,277,907 in fiscal year 1997. The Legislature periodically appropriates Building Fund monies to BWSR to purchase conservation easements. The appropriations are available until expended since easement transactions take several years to complete. The two largest easement programs are Reinvest in Minnesota (RIM) Reserve and the Permanent Wetlands Preserve. These programs are administered by BWSR and are implemented at the local level of government through the Soil and Water Conservation Districts. These programs comprise about 90 percent of easement expenditures.

Both programs protect and restore the health of the state's natural resources by improving water quality, controlling soil erosion, and increasing and enhancing fish and wildlife habitats. The purpose of the Reinvest in Minnesota (RIM) Program is to retire marginal, environmentally sensitive lands from crop production. The program also helps landowners establish certain conservation practices on the land. The Permanent Wetlands Preserve Program protects existing wetlands.

The state enters into easement agreements with eligible landowners that give the state rights to the land. The easement is the formal agreement between the state and the landowner. The landowner receives payment for the land and payment for specific conservation practices that are outlined in an approved conservation plan.

### **Audit Objectives and Methodology**

Our review focused on the following objectives:

- Did BWSR design internal controls to provide reasonable assurance that easement expenditures were properly authorized, calculated, and accurately reported in the accounting records?

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

- Did BWSR comply with material finance-related legal provisions related to easements?

To answer these questions, we interviewed department personnel to gain an understanding of the procedures in place. We performed detailed testing of specific transactions and performed analytical reviews.

## **Conclusions**

The Board of Water and Soil Resources designed internal controls to provide reasonable assurance that easement expenditures were properly authorized, calculated, and accurately reported in the accounting records. In addition, for the transactions tested, BWSR complied with material finance-related legal provisions.

# Board of Water and Soil Resources

---

## Chapter 3. Grants

---

### *Chapter Conclusions*

*The Board of Water and Soil Resources designed internal controls to provide reasonable assurance that grant expenditures for the Natural Resource Block Grant, General Services Grants, Cost Share Work Grants, and State Revolving Fund Implementation Grants were properly authorized and accurately recorded in the accounting records. For the items tested, the board complied with material finance-related legal provisions relating to these grants.*

---

The Board of Water and Soil Resources operated a number of grant programs that were awarded to soil and water conservation districts and other local governments. As shown in Table 3-1, grant expenditures totaled \$9,712,410 in fiscal year 1996 and \$14,159,682 in fiscal year 1997. General Fund appropriations for grants are available for expenditure within the biennium. The purpose of these grants was to provide financial and technical assistance relating to the implementation of various conservation, erosion control, and water quality management practices and programs.

---

**Table 3-1**  
**Summary of Grant Expenditures**  
**Fiscal Years Ended June 30, 1996, and June 30, 1997**

	<u>1996</u>	<u>1997</u>
Natural Resources Block Grant	\$4,091,175	\$ 7,502,296
Cost Share Work Grant	2,379,148	2,536,831
General Services Grant	1,823,158	2,056,740
State Revolving Fund Grant	1,039,995	1,040,005
Other Grants	<u>378,934</u>	<u>1,023,990</u>
Total	<u>\$9,712,410</u>	<u>\$14,159,862</u>

---

Source: Minnesota Accounting and Procurement System (MAPS) budgetary basis expenditures for fiscal years ended June 30, 1996, and June 30, 1997.

---

### *Natural Resources Block Grants*

The Natural Resources Block Grant, which began in fiscal year 1994, provides assistance to counties to implement four natural resource programs. These include local water planning, wetland conservation, shoreland management, and feedlot permits. Counties can apply for funding from one or all of these programs. The awards for the local water planning and wetland conservation act portions of the program are determined by BWSR based upon an outlined formula. The Department of Natural Resources (DNR) and Minnesota Pollution Control Agency

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

(MPCA) management determine the awards for the shoreland and feedlot permit portions of the block grant. Counties submit a grant application and workplan to request funds under the block grant. The grant funds are available for a two-year period. Counties are required to match the grants from local funds.

### ***Cost Share Work Grants***

The Cost Share Work Grant provides funds to 91 soil and water conservation districts to share costs on priority projects. The program provides technical and financial assistance to landowners who install permanent, nonproduction-oriented practices designed to protect and improve soil and water resources. BWSR funds several projects in a district including strip cropping, terraces, storm water control systems, field windbreaks, and critical area stabilization. BWSR administers this program at the state level, and the districts administer the activities at the local level. The local districts work in cooperation with landowners to treat resource problems that are having a negative impact on society.

### ***General Service Grants***

BWSR provides General Service Grants to the Soil and Water Conservation Districts (SWCD). The grants are to provide the local districts with general administrative resources. The districts are required to submit a comprehensive plan and other annual reports to qualify for General Services Grants.

### ***State Revolving Fund Implementation Grant***

The purpose of the State Revolving Fund Implementation Grant (Nonpoint Engineering Assistance Grants) is to provide technical assistance for pollution control. Eleven joint powers groups of Soil and Water Conservation Districts (SWCDs) act as fiscal agents for the local districts. The funds are used to pay for the salaries of engineers and technicians for technical assistance related to pollution abatement and to help landowners establish various conservation practices. The program first received an appropriation in fiscal year 1995.

## **Audit Objectives and Methodology**

We focused our audit work on these grants on the following objectives:

- Did BWSR design internal controls to provide reasonable assurance that grant expenditures were properly authorized, calculated, and accurately reported in the accounting records?
- Did the BWSR comply with material finance-related legal provisions related to grants?

To answer these questions, we completed interviews with department personnel to gain an understanding of the procedures in place for handling grants. We performed detailed testing of specific transactions and performed analytical reviews.

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

### **Conclusions**

The Board of Water and Soil Resources designed internal controls to provide reasonable assurance that grant expenditures were properly authorized and calculated and accurately reported in the accounting records. In addition, for the items tested, BWSR complied with applicable finance-related legal provisions.

---

## Chapter 4. Payroll

---

### *Chapter Conclusions*

*The Board of Water and Soil Resources designed internal controls to provide reasonable assurance that payroll expenditures were properly authorized, adequately supported, and accurately recorded in the accounting records. For the items tested, transactions were processed in accordance with employee bargaining unit agreements and applicable state policies and procedures.*

---

The Board of Water and Soil Resources personnel and payroll data is processed through the state's personnel/payroll system. The department began using the state's new system, the State Employee Management (SEMA4) system, in December 1995. The department uses a software package called Timecard Accounting for entering time on electronic timesheets. BWSR staff enter the timesheet hours in SEMA4. The payroll system interfaces with the state's accounting system, the Minnesota Accounting and Procurement System (MAPS). The department's payroll expenditures on MAPS were \$2,410,938 in fiscal year 1996 and \$2,831,818 in fiscal year 1997.

### **Audit Objectives and Methodology**

We focused our audit of payroll expenditures on the following objectives:

- Did the department design internal controls to provide reasonable assurance that payroll and personnel transactions were processed in accordance with bargaining unit agreements and applicable state policies and procedures?
- Were payroll expenditures properly authorized, adequately supported, and accurately recorded in the state's payroll and accounting systems?

We interviewed department personnel, performed analytical reviews, and tested a random sample of timesheets to determine the accuracy of hours worked and leave taken.

### **Conclusions**

The Board of Water and Soil Resources designed internal controls to provide reasonable assurance that its payroll and personnel transactions were processed in accordance with state policies and procedures and employee bargaining unit agreements. The Board of Water and Soil Resources' payroll was adequately supported and accurately recorded in the state's payroll and accounting systems.

---

## Chapter 5. Travel and Per Diem

---

### *Chapter Conclusions*

*The Board of Water and Soil Resources designed internal controls to provide reasonable assurance that travel and per diem expenditures were properly authorized, adequately supported, and accurately recorded in the accounting records. For the items tested, BWSR processed these expenses in accordance with employee bargaining unit agreements and applicable state policies and procedures.*

---

The Board of Water and Soil Resources reimburses both its board members and employees for expenses incurred in carrying out agency business. The reimbursement policies for the board members are outlined in Minn. Stat. Section 15.0575 and further outlined in board policy. The individual employee bargaining unit agreements outline the reimbursement policies for state employees. Board member per diems totaled \$24,750 in fiscal year 1996 and \$15,950 in fiscal year 1997. Travel expense reimbursements to employees and board members totaled \$108,318 in fiscal year 1996 and \$115,249 in fiscal year 1997.

### **Audit Objectives and Methodology**

We focused our audit of per diem and travel expenditures on the following objectives:

- Did the department design internal controls to provide reasonable assurance that per diem and expense reimbursements were processed in accordance with employee bargaining unit agreements and applicable state policies and procedures?
- Were per diem and travel expenditures properly authorized, adequately supported, and accurately recorded in the accounting systems?

We interviewed department personnel and reviewed expense reimbursements for propriety.

### **Conclusions**

The Board of Water and Soil Resources designed internal controls to provide reasonable assurance that its per diem and expense reimbursements were processed in accordance with state policies and procedures and employee bargaining unit agreements. The Board of Water and Soil Resources' expenditures were properly authorized, adequately supported, and accurately recorded in the state's payroll and accounting systems.



## Board of Water and Soil Resources

---

### Status of Prior Audit Issues As of April 24, 1998

---

#### Most Recent Audit

November 1994 Legislative Audit Report 94-56 covered the three years ended June 30, 1993.

The audit scope included the agency's internal control structure policies and procedures as follows:

- Personnel 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

The audit cited six audit recommendations, three relating to payroll and one each relating to grants, records retention, and a potential conflict of interest. All of the issues have been resolved.

#### State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as the metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.