

Legislative-Citizen Commission on Minnesota Resources July 18, 2018

James Nobles | Legislative Auditor
Christopher Buse | Deputy Legislative Auditor
Tracy Gebhard | Audit Director

Today's Agenda

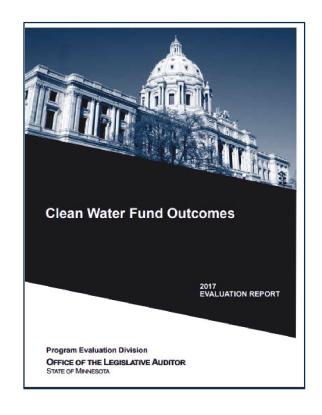
- ✓ Office of the Legislative Auditor overview
- ✓ Legacy Amendment work done by OLA
- ✓ Board of Water and Soil Resources report
- ✓ Council member questions and concerns

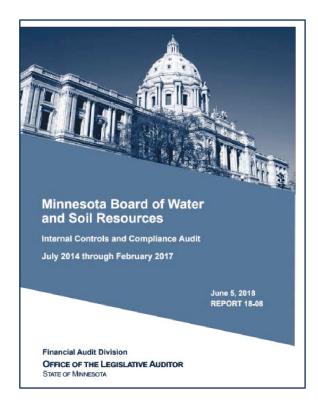


Office of the Legislative Auditor

- ✓ OLA is a professional, nonpartisan office within the legislative branch of Minnesota state government
- ✓ Our mission is to support legislative oversight and strengthen accountability in state government
- ✓ We provide assurance that questions and concerns about government operations and the use of public resources will be addressed thoroughly and objectively







Program Evaluations

Financial Audits

DATE: May 10, 2018 Senator Carrie Ruud, Chair Senate Environment and Natural Resources Policy and Legacy Finance Committee Jim Nobles, Legislative Auditor Joel Alter, OLA Director of Special Reviews SUBJECT: Legacy Money Used for Administrative Expenses Members, Senate Environment and Natural Resources Policy and Legacy Finance Members, House Legacy Funding Finance Committee Members, Legislative Audit Commission Commissioner Tom Landwehr, Minnesota Department of Natural Resources Commissioner John Line Stine, Minnesota Pollution Control Agency Executive Director John Jaschke, Minnesota Board of Water and Soil Resources Executive Director Sue Gens, Minnesota State Arts Board Director and Chief Executive Officer D. Stephen Elliott, Minnesota Historical In a 2011 report, the Office of the Legislative Auditor (OLA) noted that the use of Legacy money for administrative expenses was an ongoing legislative concern. We said: The Legislature's objective has been to have as much Legacy money as possible applied to the "direct costs" associated with Legacy-funded projects and to limit administrative costs as much as possible.1 Accomplishing this legislative objective has been challenging. As a first approach, the Legislature set a fixed percent agencies and other recipients of Legacy money could use for administrative expenses. State agencies oriticized this approach as inflexible. As a result, the Legislature gave agencies more flexibility by saying agencies and other recipients of Legacy money could spend as much or as little Legacy money on administrative expenses as long as the expenses were "directly related to and necessary for" the implementation of the relevant Legacyfunded program or activity. Office of the Legislative Auditor, Program Evaluation Division, The Legacy Amendment (St. Paul, November Room 140 Centermial Building, 660 Cedar Street, St. Paul, Minnesota 55155-3600 * Phone: 660-286-4708 * Fox: 650-286-4712

OFFICE OF THE LEGISLATIVE AUDITOR

Special Reviews

Legacy Amendment Work

Focus Areas

- ✓ Use of Legacy funds for purposes consistent with law
- ✓ Oversight of legacy-funded projects
- ✓ Controls over administrative expenses
- ✓ Achievement of program outcomes



Board of Water and Soil Resources



Internal Controls and Compliance Audit
July 2014 through February 2017

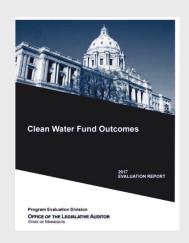
June 5, 2018 REPORT 18-08

Financial Audit Division

OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA

Why Audit?





Legislative Interest in Environmental Issues is High



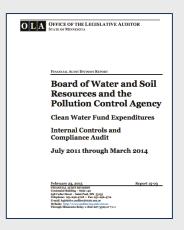
Complexity

Funding Sources
Have Complex
Legal Compliance
Requirements



Cost

The Agency Spends
About \$100 Million
Annually



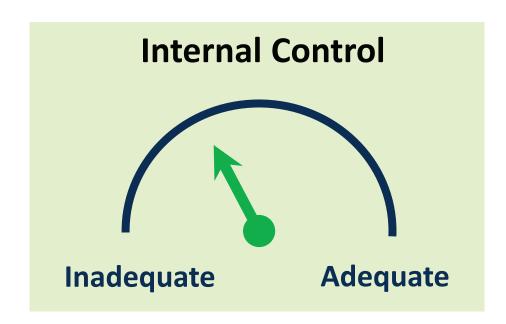
Risk

History of Audits with Significant Findings



Areas Examined

Area	Description
Grants	Environmental grants, primarily to local governments, account for 49% of expenditures
Easements	Easement to landowners account for about 34% of expenditures
Payroll	Employee costs account for about 10% of expenditures
Administrative	Travel, supplies, and other costs necessary to operate the agency account for about 7% of expenditures





- **✓** No issues with grant and easement expenditures
- ✓ Significant internal control and compliance issues with payroll and other administrative expenditures

Conclusion

The board did not establish appropriate fiscal oversight controls for administrative expenditures

- ✓ Numerous internal control and compliance issues
- ✓ Repeat findings
- ✓ History of shortcomings merits a deeper assessment of staff and accounting practices

Recommendation

OLA recommends seeking external help to rectify longstanding fiscal oversight weaknesses



The board did not consistently resolve conflicts of interest

- ✓ Audit identified 8 instances where reported conflicts were not managed in accordance with state policies
- ✓ State policies require that potential conflict be disclosed to all parties in the grant process
- ✓ Resolutions to potential conflicts must be noted in meeting minutes

Recommendation

OLA recommends actively managing potential conflicts of interest in accordance with state law and policy



BWSR Disagrees

Disclose



Discuss



Document

Criteria

Issue

- **Proactive process to** identify conflicts
- No issues

- **✓** Open discussion between all grant process participants
- ✓ No evidence to show that all potential conflicts were openly discussed with all members

- **Resolution of conflicts** fully documented in board minutes
- No documentation to support why some members with conflicts were allowed to vote



The board did not have appropriate controls to ensure compliance with funding use legal restrictions

- ✓ Many instances of noncompliance
- ✓ Lack of records made it very difficult to conduct the audit

Recommendations

OLA recommends implementing controls to ensure compliance with funding source legal provisions

OLA recommends correcting the errors found during the audit



The board did not follow state accounting policies

- ✓ Transaction coding
- ✓ Payroll, personnel, and expense reimbursement processing
- ✓ Management of access to statewide systems

Recommendations

OLA recommends following state payroll, personnel, accounting, and system access policies

OLA recommends correcting the errors found during the audit





Questions?

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