

Lessard-Sams Outdoor Heritage Council

Agenda Item Memo

DATE: June 17, 2014

SUBJECT: DNR Internal Controls and Compliance Audit, July 2010-February 2013

PRESENTER: Brad White and Cecile Ferkul, Office of the Legislative Auditor

Background:

The Office of the Legislative Auditor recently published a report on DNR internal controls. Overall, the report found that adequate controls are in place, with the exception of the accuracy of payroll transactions charged to dedicated funds. The audit also found that the DNR did not comply with certain state grant policies and department guidelines for appropriations made from the Outdoor Heritage Fund, including monitoring of statutory requirements and state grant provisions.

Suggested Motion:

No motion is suggested.

Suggested Procedure:

Receive update and question the presenters. Discuss implications and impact for the Outdoor Heritage Fund.

Attachments: Executive Summary and Finding 4

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Report Summary

Conclusion

The Department of Natural Resources generally had adequate internal controls over the financial areas we reviewed. However, the department's internal controls were not adequate to ensure the accuracy of payroll transactions and ensure that payroll costs charged to dedicated funds and accounts corresponded to the work the employees performed.

For the items we tested, the department generally complied with significant finance-related legal requirements contained in statutes, laws, rules, and policies. However, we found some instances of noncompliance.

Key Findings

- The Department of Natural Resources did not adequately verify the accuracy of hours worked and allocation of payroll costs for employees that did not complete their own timesheets and direct supervisors that did not approve their hours in the state's automated time reporting system. In addition, the department did not review a key payroll system report to ensure the overall accuracy of payments to employees. This is a repeat finding.¹ ([Finding 1, page 13](#))
- The Department of Natural Resources did not always document its reasons for making payroll adjustments that moved costs between dedicated accounts. ([Finding 2, page 16](#))
- The Department of Natural Resources did not adequately mitigate the risk created by employees with incompatible access to the state's accounting system. ([Finding 3, page 18](#))
- The Department of Natural Resources did not comply with certain state grant policies and department guidelines for grants paid from the Outdoor Heritage Fund and the Environment and Natural Resources Trust Fund. ([Finding 4, page 19](#))

¹ Office of the Legislative Auditor's Financial Audit Division Report 09-02, *Department of Natural Resources*, issued January 15, 2009, Finding 11.

Audit Objectives and Scope

Objectives

- Internal controls
- Compliance

Period Audited

July 1, 2010, through February 28, 2013

Selected Audit Areas

- System security access
 - Payroll and travel expenditures
 - Dedicated accounts
 - Internal cost allocations
 - Outdoor Heritage Fund grants
 - Environment and Natural Resources Trust Fund grants
 - Permanent School Fund
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The Department of Natural Resources did not comply with certain state grant policies and department guidelines for grants paid from the Outdoor Heritage Fund and the Environment and Natural Resources Trust Fund.

Finding 4

The department did not always monitor grantee compliance with statutory requirements and state grant provisions as required by the state's grant management policies. The department had the following grant oversight weaknesses:

- The department did not conduct required site monitoring visits of any recipient of grants from the Outdoor Heritage Fund or Environment and Natural Resources Trust Fund. From fiscal year 2011 through 2013, these grants totaled \$79 million. State grants policy requires at least one monitoring visit during the grant period for grants that exceed \$50,000 and annual monitoring visits on grants that exceed \$250,000.¹⁹ About 26 percent of the department's Outdoor Heritage Fund and Environment and Natural Resources Trust Fund grants, (totaling about \$7.2 million) were from \$50,000 to \$250,000; about 17 percent (totaling about \$69.6 million) exceeded \$250,000. The state policy requires site visits to ensure grantees use money in accordance with the terms of the grant agreement and the purpose of the appropriations.

However, for the department's large grants that involve land acquisitions, the department monitored grantees' appropriate use of the grant money in other ways. For example, the department received legal documents related to the land acquisition, such as a copy of the title. The department's other oversight for these types of grants may be sufficient and lessen the need for the grantee site visits. The state's Office of Grants Management can authorize other oversight procedures as alternatives to the requirements of its state grants management policies.

- Some Outdoor Heritage Fund grantees did not submit certain evidence and documentation related to land acquisitions within the timelines required by the department's guidelines and the grant agreements. For the grants we tested, five of eight grantees did not submit a bank confirmation of the amount paid for the land within ten days of closing the real estate transaction; and, two of ten grantees did not provide a settlement statement within ten days after the closing date. Department land acquisition guidelines state that the grantee must submit a bank confirmation of the amount paid within ten days after the land acquisition closing, and must provide a settlement statement within ten days of the closing.²⁰ These documents provide the department with assurance that the grantee and its bank made the monetary transfers based on the financial terms of the land purchase.

¹⁹ Department of Administration, Office of Grants Management Policy 08-10.

²⁰ Department of Natural Resources, Land Acquisition Guidelines for pass-through grants.

In addition, the department did not receive timely evidence that one grantee recorded a notice of funding restriction for a \$2.6 million Outdoor Heritage Fund grant for land acquisition. The department's land acquisition guidelines and the grant agreement specified the notice was due no later than 60 days after the closing date,²¹ but the department did not receive it until six months later. State statute requires the recording of a "notice of funding restrictions in the appropriate local government office where the conveyance of the interest in real property is filed."²² The statute requires the notice to include a legal description of the property, a reference to the underlying funding agreement, a reference to the statute, and the following statement:

This interest in real property shall be administered in accordance with the terms, conditions, and purposes of the grant agreement controlling the acquisition of the property. The interest in real property, or any portion of the interest in real property, shall not be sold, transferred, pledged, or otherwise disposed of or further encumbered without obtaining the prior written approval of the Lessard-Sams Outdoor Heritage Council or its successor. The ownership of the interest in real property transfers to the state if: (1) the holder of the interest in real property fails to comply with the terms and conditions of the grant agreement or accomplishment plan; or (2) restrictions are placed on the land that preclude its use for the intended purpose as specified in the appropriation.

Recommendations

- *The Department of Natural Resources should conduct grantee site monitoring visits, as required by state grants management policies, or obtain approval from the Department of Administration for other oversight procedures.*
- *The Department of Natural Resources should ensure that grantees submit all required evidence and documentation to support grants for land acquisitions.*

²¹ Department of Natural Resources, Land Acquisition Guidelines for pass-through grants.

²² *Minnesota Statutes* 2013, 97A.056, Subd. 15 (c).
