



# Minnesota 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

## Financial Audit Division

The Financial Audit Division conducts 40 to 50 audits each year, focusing on government entities in the executive and judicial branches of state government. In addition, the division periodically audits metropolitan agencies, several “semi-state” organizations, and state-funded higher education institutions. Overall, the division has jurisdiction to audit approximately 180 departments, agencies, and other organizations.

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OLA also conducts special reviews in response to allegations and other concerns brought to the attention of the Legislative Auditor. The Legislative Auditor conducts a preliminary assessment in response to each request for a special review and decides what additional action will be taken by OLA.

For more information about OLA and to access its reports, go to: [www.auditor.leg.state.mn.us](http://www.auditor.leg.state.mn.us).



## OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

June 5, 2018

Senator Mary Kiffmeyer, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

John Jaschke, Executive Director  
Minnesota Board of Water and Soil Resources

This report presents the results of our internal controls and compliance audit of the Minnesota Board of Water and Soil Resources for the period July 2014 through February 2017. The objectives of this audit were to determine if the board had adequate internal controls over selected financial activities and complied with significant finance-related legal requirements.

This audit was conducted by Tracy Gebhard, CPA (Audit Director); Valentina Stone, CPA (Auditor-in-Charge); Melissa Strunc, CPA (Senior Auditor); and Kelsey Carlson (Staff Auditor).

We received the full cooperation of the board's staff while performing this audit.

Sincerely,

James R. Nobles  
Legislative Auditor

Christopher P. Buse  
Deputy Legislative Auditor



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# Report Summary

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The Minnesota Board of Water and Soil Resources is the state agency responsible for the improvement and protection of the state's water and soil resources. The board works in partnership with local organizations and private landowners to accomplish its conservation mission.

The Office of the Legislative Auditor conducted this selected scope audit to determine whether the board had adequate internal controls and complied with significant finance-related legal requirements. The audit scope included grants, easements, and payroll and other administrative expenditures. The period under examination went from July 2014 through February 2017.

## Conclusion

Internal controls at the Board of Water and Soil Resources were generally not adequate, and the board lacked the necessary cost-accounting rigor to ensure compliance with significant finance-related legal requirements. Though most grant and easement transactions that we tested complied with legal requirements, payroll and other administrative costs lacked appropriate controls and often did not follow established state policies and requirements in law. Insufficient documentation also made it difficult to audit many key cost-allocation decisions.

## Findings

**Finding 1.** The Board of Water and Soil Resources did not establish appropriate fiscal oversight controls for its administrative expenditures. This was a prior audit finding.

**Finding 2.** The Board of Water and Soil Resources did not properly resolve conflicts of interest.

**Finding 3.** The Board of Water and Soil Resources did not have appropriate controls to ensure compliance with funding-use legal restrictions. This was a prior audit finding.

**Finding 4.** The Board of Water and Soil Resources did not follow state accounting policies for its administrative expenditures. This was a prior audit finding.



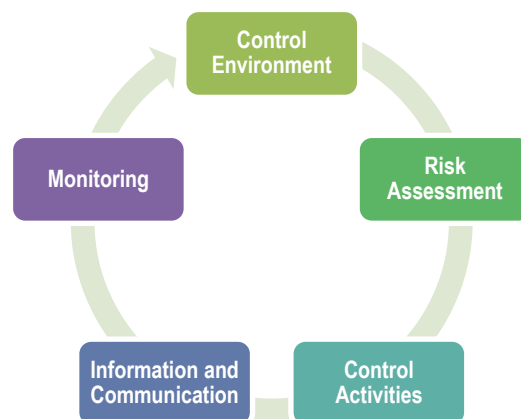


# Audit Overview

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This report presents the results of an internal controls and compliance audit of selected activities in the Minnesota Board of Water and Soil Resources. Management is responsible for establishing internal controls to safeguard assets and ensure compliance with applicable laws, regulations, and state policies.

A strong system of internal controls begins with management's philosophy, operating style, and commitment to ethical values. It also includes processes to continuously assess risks and implement control activities to mitigate risks. A successful internal controls system includes iterative processes to monitor and communicate the effectiveness of control activities.



## Board Overview

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The Board of Water and Soil Resources partners with local governments and private landowners to improve and protect Minnesota's water and soil resources. The board grants most of its funds to local governments, who in turn work with landowners to implement conservation best practices. However, the board has about 100 employees and uses a portion of its resources for payroll and other administrative costs.

## Financial Activity

The board receives appropriations from the Clean Water, Outdoor Heritage, Environmental and Natural Resources, Bonding, and General Funds. The board also receives money through agreements with other agencies and through federal grants. Each of these revenue sources have legal provisions that outline allowable uses of the money.

Total expenditures for the board are approximately \$100 million annually, as depicted in Table 1.

**Table 1: Board Revenues, Appropriations, and Expenditures**

	2015	2016	2017 <sup>a</sup>
<b>Revenues and Appropriations</b>			
Interagency Revenue	\$ 6,438,102	\$ 3,205,352	\$ 3,222,488
Federal Revenue	3,626,434	5,789,473	61,069
Other Revenue	517,569	458,199	261,722
<b>Appropriations</b>			
Clean Water Fund	34,037,000	56,841,000	56,322,000
Outdoor Heritage Fund	16,422,000	7,513,000	23,061,000
General Fund	14,757,000	13,337,000	18,794,000
Other Funds	6,657,000	2,203,000	3,272,000
<b>Total Revenues and Appropriations</b>	<b><u>\$ 82,455,105</u></b>	<b><u>\$89,347,024</u></b>	<b><u>\$104,994,279</u></b>
<b>Expenditures<sup>b</sup></b>			
Payroll	\$ 8,873,078	\$ 9,177,118	\$ 10,762,158
Purchased Services	4,258,854	3,454,898	3,912,225
<b>Grants</b>			
Clean Water Legacy Grants	20,328,571	25,016,812	38,975,309
Erosion, Sediment, and Water Quality Control Grants	–	8,666,266	1,923,734
Natural Resources Block Grants	6,456,252	6,253,747	5,923,140
Services Grants	3,140,697	3,115,999	3,132,569
All Other Grants	9,442,050	5,867,423	7,307,476
Easements	45,889,287	33,439,210	20,291,145
All Other Expenditures	3,318,134	4,273,355	3,880,180
<b>Total Expenditures</b>	<b><u>\$101,706,923</u></b>	<b><u>\$99,264,828</u></b>	<b><u>\$ 96,107,936</u></b>

<sup>a</sup> This table includes all fiscal year 2017 financial activity. However, the scope of our audit only included fiscal year 2017 activity through February 2017.

<sup>b</sup> Total expenditures may not equal total revenues and appropriations. The board has authority in law to use prior appropriations.

Source: State of Minnesota's accounting system.

## Audit Scope

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This audit reviewed selected activities of the Board of Water and Soil Resources for the period from July 2014 through February 2017.

### **Grant Expenditures**

Grants account for approximately 49 percent of the board's overall expenditures. For fiscal years 2014 through 2017, grants to local units of government for conservation activities averaged about \$48.5 million annually.

### **Easement Expenditures**

Easements account for approximately 34 percent of the board's overall expenditures. For fiscal years 2014 through 2017, easements for conservation activities averaged about \$33 million annually. Most easements are perpetual and require the landowner to perform specific activities, such as maintaining buffers along riverbanks.

### **Payroll Expenditures**

Payroll accounts for about 10 percent of the board's total expenditures. For fiscal years 2014 through 2017, payroll expenditures averaged about \$9.6 million annually.

### **Other Administrative Expenditures**

Miscellaneous administrative expenditures account for about 7 percent of the board's total expenditures. For fiscal years 2014 through 2017, miscellaneous administrative expenditures averaged about \$7.7 million annually. Employees located at the central office and nine field offices incur travel expenses to monitor grants and easements. The board also incurs administrative costs for work-related events, training, and office support.

## Audit Objectives

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We designed our audit to answer the following questions:

- Did the Board of Water and Soil Resources have adequate internal controls over selected financial activities?
- Did the Board of Water and Soil Resources comply with significant finance-related legal requirements?
- Did the Board of Water and Soil Resources resolve its prior audit findings?

## Audit Methodology and Criteria

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To answer the audit objective questions, we interviewed staff to gain an understanding of financial policies and procedures. We also analyzed accounting data to identify unusual trends or significant changes in financial operations. Finally, we examined samples of financial transactions and reviewed supporting documentation to test whether controls were effective and to determine if transactions complied with finance-related legal provisions.

We conducted the audit in accordance with generally accepted government auditing standards.<sup>1</sup> Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions. Audit standards also require us to consider the risk of errors in accounting records and potential noncompliance when planning and conducting the audit.

We assessed internal controls against the most recent edition of the internal control standards, published by the U.S. Government Accountability Office.<sup>2</sup> To identify legal compliance criteria for the activity we reviewed, we examined state and federal laws, state administrative rules, state contracts, and policies and procedures established by the departments of Management and Budget and Administration, and the board.

## Conclusion

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Internal controls at the Board of Water and Soil Resources were generally not adequate, and the board lacked the necessary cost-accounting rigor to ensure compliance with significant finance-related legal requirements. Though most grant and easement transactions that we tested complied with legal requirements, payroll and other administrative costs lacked appropriate controls and often did not follow established state policies and requirements in law. Insufficient documentation also made it difficult to audit many key cost-allocation decisions.

The following *Findings and Recommendations* section provides further explanation about the inadequate internal controls and instances of noncompliance.

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<sup>1</sup> U.S. Government Accountability Office, *Government Auditing Standards*, December 2011.

<sup>2</sup> Comptroller General of the United States, U.S. Government Accountability Office, *Standards for Internal Control in the Federal Government*, (Washington, DC, September 2014.) In September 2014, the State of Minnesota adopted these standards as its internal control framework for the executive branch.

# Findings and Recommendations

**FINDING 1**

**Prior Audit Finding. The Board of Water and Soil Resources did not establish appropriate fiscal oversight controls for its administrative expenditures.**

This audit identified numerous internal control weaknesses and instances where the board did not follow finance-related legal provisions for its administrative expenditures. These results are similar to the results of prior audits completed by the Office of the Legislative Auditor (OLA), indicating longstanding and systemic shortcomings in the board’s fiscal oversight practices.

**Table 2: Board of Water and Soil Resources Audit History**

Year	Report Focus	Findings
2015	Clean Water Fund Expenditures <sup>a</sup>	7
2010	Internal Control and Compliance	9
2007	Internal Control and Compliance	15

<sup>a</sup> The *Clean Water Fund Expenditures* report was addressed to both the Board of Water and Soil Resources and the Pollution Control Agency. The report contained nine findings, seven of which related to the Board of Water and Soil Resources.

Sources: Minnesota Office of the Legislative Auditor, Financial Audit Division Report 15-03, *Minnesota Board of Water and Soil Resources and the Pollution Control Agency Clean Water Fund Expenditures*, issued February 23, 2015; Minnesota Office of the Legislative Auditor, Financial Audit Division Report 10-18, *Minnesota Board of Water and Soil Resources*, issued May 27, 2010; and Minnesota Office of the Legislative Auditor, Financial Audit Division Report 07-33, *Minnesota Board of Water and Soil Resources*, issued November 28, 2007.

Though the board is a relatively small agency, it manages substantial fiscal resources and has complex accounting requirements. The results of this and former audits indicate that the board may need additional staffing and training to adequately safeguard funds and operate its programs in compliance with state laws and policies.

The board recently hired a new chief financial officer. During this transition to a new accounting leader, we encourage the board to seek help from Minnesota Management and Budget to assess its fiscal management practices and staff capabilities.

**RECOMMENDATION**

**The Board of Water and Soil Resources should seek external help to rectify its longstanding fiscal oversight weaknesses.**

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## FINDING 2

### **The Board of Water and Soil Resources did not properly resolve conflicts of interest.**

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All Water and Soil Resources Board and Grant Review Team members must complete a conflict of interest form to disclose any actual, perceived, or potential impairments. We identified eight people that disclosed conflicts during our review of this key internal control process. However, we found no evidence that management discussed or resolved any of the potential impairments. Five of the eight individuals subsequently participated in the evaluation or approval of grants.

The Minnesota Department of Administration's Office of Grants Management publishes detailed policies to address and manage conflicts of interest.<sup>3</sup> Required by *Minnesota Statutes* 2017, 16B.98, subd. 3, the Office of Grants Management policy states:

Minnesota state agencies must work to deliberately avoid actual, potential and perceived conflicts of interest related to grant-making at both the individual and organizational levels. When a conflict of interest concerning state grant-making exists, transparency shall be the guiding principle in addressing it.

The policy contains detailed steps for investigating and managing potential conflicts, but at a minimum:

...all internal parties who are involved in the grant review or grant management process must be made aware that an actual, potential or perceived conflict has been disclosed and evaluated, even if it is not serious enough to remove or reassign the employee or grant reviewer.

And finally, the policy stresses the importance of documentation:

Any disclosed conflicts and their resolution should be noted in meeting minutes, documents or records that the state agency keeps as a regular part of its grants process.

These legislative and policy requirements were established to promote sound fiscal decision-making that is free of bias. By not managing potential conflicts transparently, the board increases its risk of awarding grants based on special interests, rather than on the merits of proposals.

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## RECOMMENDATION

### **The Board of Water and Soil Resources should actively manage potential conflicts of interest, as required by state law and policy.**

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<sup>3</sup> Minnesota Department of Administration Operating Policy and Procedure 08-01, *Conflict of Interest Policy for State Grant-Making*.

### FINDING 3

**Prior Audit Finding.<sup>4</sup> The Board of Water and Soil Resources did not have appropriate controls to ensure compliance with funding-use legal restrictions.**

A primary objective of this audit was to determine whether the Board of Water and Soil Resources complied with funding-use legal provisions. For example, costs charged to the Clean Water and Outdoor Heritage Legacy appropriations must be directly related and necessary to accomplish the purposes defined in law.<sup>5</sup> This audit identified instances where the board did not use funds appropriately, primarily due to errors. In many other instances, we could not determine whether the board used funds appropriately because there were no records to substantiate financial decisions.

The following tables summarize the types of issues that OLA encountered when testing whether the board used its resources in accordance with finance-related legal provisions.

**Table 3: Grants and Easements Compliance Testing Exceptions**

Issue	Impact
Service grants to local soil and water conservation districts were not allocated to appropriations consistently.	Clean Water and Outdoor Heritage appropriations may have been overcharged \$13,509 and \$10,548, respectively. Bonding Fund appropriation may have been undercharged \$24,057.
Easement conservation and acquisition costs were not allocated to appropriations consistently.	Clean Water and Outdoor Heritage appropriations may have been overcharged \$6,741 and \$5,775, respectively. Bonding Fund appropriation may have been undercharged \$12,516.

<sup>4</sup> Minnesota Office of the Legislative Auditor, Financial Audit Division Report 15-03, *Minnesota Board of Water and Soil Resources and the Pollution Control Agency Clean Water Fund Expenditures*, issued February 23, 2015; and Minnesota Office of the Legislative Auditor, Financial Audit Division Report 10-18, *Minnesota Board of Water and Soil Resources*, issued May 27, 2010.

<sup>5</sup> *Laws of Minnesota* 2013, chapter 137, art. 2, sec. 2, subd. 2; and *Laws of Minnesota* 2015, First Special Session, chapter 2, art. 2, sec. 2, subd. 2. The laws require “Money appropriated...may not be spent on activities unless they are directly related to and necessary for a specific appropriation. Money...must be spent in accordance with Minnesota Management and Budget’s Guidance to Agencies on Legacy Fund Expenditures.”

**Table 4: Payroll and Personnel Compliance Testing Exceptions**

Issue	Impact
Records were not consistently kept to support payroll allocations.	OLA was unable to substantiate the appropriateness of payroll allocations to specific funding sources. <sup>a</sup>
Records were not kept to support retroactive adjustments to payroll allocations.	OLA was unable to substantiate the appropriateness of retroactive payroll adjustments, a type of transaction which is highly susceptible to abuse.
Payroll allocation estimates were not subsequently validated for accuracy.	Errors in payroll allocation estimates could result in overcharges and undercharges to funding sources, if estimates are not adjusted to reflect the actual time worked on specific activities.
Personnel costs were incorrectly charged to the Clean Water Fund.	Clean Water appropriations were overcharged \$6,769.
Records were not kept to support board member costs directly charged to Legacy funding sources.	Clean Water Fund appropriations may have been overcharged \$4,065.
For costs charged to bond proceeds, required quarterly reports were not submitted to Minnesota Management and Budget. <sup>b</sup>	Minnesota Management and Budget cannot fulfill its fiduciary oversight duties without this information.

<sup>a</sup> Minnesota Constitution, article XI, section 5, paragraph (a), specifies the use of bond funds. *Laws of Minnesota* 2013, chapter 137, art. 2, sec. 2, subd. 2; and *Laws of Minnesota* 2015, First Special Session, chapter 2, art. 2, sec. 2, subd. 2, all specify the use of legacy funds.

<sup>b</sup> Minnesota Management and Budget, *Policy Regarding Use of General Obligation Bond Proceeds to Fund Staff Costs*, October 20, 2009, requires agencies to submit quarterly reports.

**Table 5: Administrative Cost Compliance Testing Exceptions**

Issue	Impact
Records were not kept to support the rationale for administrative cost allocations.	OLA was unable to substantiate the appropriateness of administrative cost allocations to specific funding sources.
Records were not kept to support retroactive adjustments to administrative cost allocations.	OLA was unable to substantiate the appropriateness of administrative cost retroactive adjustments.
The worksheet used to calculate administrative cost allocations contained numerous errors.	Errors in the allocation worksheet resulted in undercharges to some funding sources and overcharges to others.
Easement related administrative costs were paid from the incorrect appropriation.	Clean Water appropriations for grants were overcharged \$114,160.



Payroll and administrative expenditures account for approximately 17 percent of the board's annual financial activity. Despite the significance of these areas, the board could not demonstrate that it had a purposeful methodology to allocate these costs to the programs that it operates. Previous OLA audits pointed out similar instances of noncompliance with finance-related legal provisions and recordkeeping deficiencies.

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## RECOMMENDATIONS

**The Board of Water and Soil Resources should implement controls to ensure compliance with funding source legal provisions.**

**The Board of Water and Soil Resources should correct the errors identified by this audit.**

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## FINDING 4

**Prior Audit Finding.<sup>6</sup> The Board of Water and Soil Resources did not follow state accounting policies for its administrative expenditures.**

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Minnesota Management and Budget publishes accounting policies and standards, which Executive Branch entities must follow. These policies promulgate best practices to safeguard assets and ensure compliance with finance-related laws. They also promote consistent financial practices so that the state can prepare accurate financial statements. This audit identified numerous instances where the board did not follow state or internal policies and standards for its administrative expenditures.

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### Table 6: Revenue and Expenditure Transaction Policy Exceptions<sup>a</sup>

Issue	Impact
Many accounting transactions were not properly coded in the state's accounting system.	Our audit identified over \$1.5 million in improperly coded transactions. Improperly coded transactions can result in inaccurate financial statements and increase the risk of fraudulent activity.
After receiving revenue, the board did not eliminate the corresponding accounts receivable.	Our audit identified \$840,000 of receivables in the statewide accounting system that were not valid because funds had already been collected.

<sup>a</sup> Minnesota Management and Budget Statewide Policy 0207-01, *Establishing or Modifying an Account* and Policy 0501-01, *Managing and Reporting of Accounts Receivable*.

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<sup>6</sup> Minnesota Office of the Legislative Auditor, Financial Audit Division Report 15-03, *Minnesota Board of Water and Soil Resources and the Pollution Control Agency Clean Water Fund Expenditures*, issued February 23, 2015; and Minnesota Office of the Legislative Auditor, Financial Audit Division Report 10-18, *Minnesota Board of Water and Soil Resources*, issued May 27, 2010.

**Table 7: Payroll and Personnel Transaction Policy Exceptions<sup>a</sup>**

Issue	Impact
Payroll adjustments were not processed in the state's payroll system. Instead, they were made directly to financial accounts.	Though balances in the payroll and accounting systems should agree, our audit identified an \$80,000 discrepancy. Board staff could not explain why the adjustments were made.
Records were not kept to document management's review and approval of some transactions, including payroll adjustments and expense reimbursements.	Failure to review transactions increases the risk of fraud, noncompliance, and undetected errors. To illustrate, OLA found one employee that was overpaid \$1,069 due to an expense reimbursement processing error. This overpayment went undetected until our audit.
Expense reimbursements were paid to employees and board members without documentation to substantiate amounts claimed.	Failure to obtain appropriate support increases the risk of improper payments. For the sample items tested, OLA found \$2,806 of unsubstantiated payments to employees and board members.

<sup>a</sup> Minnesota Management and Budget, Policy PAY0029, *Mass Expense Transfers*, and Policy PAY0021, *Employee Business/Travel Expenses*; and the Board of Water and Soil Resources, *Board Member Per Diem and Expenses Policy*.

**Table 8: System Access Control Policy Exceptions<sup>a</sup>**

Issue	Impact
Some employees had access to perform unnecessary and incompatible functions in the state's accounting and payroll systems. OLA found no mitigating controls to prevent or detect inappropriate activities.	Agencies are required to segregate incompatible job duties. When incompatible duties cannot be segregated, agencies are required to implement compensating controls to mitigate the risk of undetected errors and fraud.
The board did not regularly review and recertify security clearances. In response to the upcoming OLA audit, the board conducted its first system access review in approximately three years.	State policy requires all agencies to review the appropriateness of employee security clearances at least annually.

<sup>a</sup> Minnesota Management and Budget, Statewide Operating Policy 1101-07, *Security and Access*.

The examples cited in the tables above are not a complete list of all policy exceptions found during the audit. There were numerous other exceptions which OLA auditors brought to the attention of board staff. These exceptions indicate additional staff and training is needed to establish appropriate internal controls to safeguard assets and decrease the risk of fraud or malfeasance.

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## **RECOMMENDATIONS**

**The Board of Water and Soil Resources should comply with state policies for processing payroll and accounting transactions.**

**The Board of Water and Soil Resources should manage security clearances to statewide systems in accordance with state policies.**

**The Board of Water and Soil Resources should correct the coding errors identified by this audit and collect amounts inappropriately paid to employees through expense reimbursement processing errors.**

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May 30, 2018

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

Dear Mr. Nobles:

Thank you for the opportunity to review and discuss the internal controls and compliance audit of the Board of Water and Soil Resources (BWSR). Over the past 12 months we have been engaging in a significant overhaul of our fiscal management system and we appreciated the interaction with your staff on areas for improvement.

As the agency charged with the fiscal oversight for our local government partners' use of state dollars, the Board takes seriously our financial management responsibilities. With over 83% of our biennial budget transferred to local governments, our top priority has been to assure compliance, accountability, and outcomes. We appreciate the Office of the Legislative Auditor's acknowledgement that our grants and easements oversight followed requirements.

#### **Finding #1**

##### **Recommendation:**

**The Board of Water and Soil Resources should seek external help to rectify its longstanding fiscal oversight weaknesses.**

We recognize the benefit of critical examination for improving fiscal processes and management. In October 2017 we contracted with the MN Department of Natural Resources to evaluate and to provide recommendations for fiscal process improvements. BWSR will continue to consult with other state agencies, including MN Management and Budget.

In the last 12 months, the agency has been in a fiscal transition, including hiring a new Chief Financial Officer in November 2017. We have been evaluating and adjusting roles and responsibilities with specific attention on training and establishing appropriate compensating controls.

BWSR has also implemented several process improvements, new controls, and procedures to ensure the necessary fiscal safeguards are in place. Examples include: adjusting the pilot activity reporting policy in August 2017, adopting a new conflict of interest form in March 2018 and adopting an updated and improved travel and special expense policy in May 2018.

**Responsible Person; Target Completion Date:** Jeremy Olson, Chief Financial Officer; December 2018

## **Finding #2**

### **Recommendation:**

**The Board of Water and Soil Resources should actively manage potential conflicts of interest, as required by state law and policy.**

As discussed, BWSR does not agree with the finding for our Board process, which includes use of our conflict of interest forms. The data provided by the OLA included eight examples: six for BWSR board members, and two for non-BWSR employees helping to score Clean Water Fund grant proposals.

We maintain that Board members follow a consistent and transparent conflict of interest procedure. During each public board meeting where a decision will be made, the BWSR Board Chair reads aloud the conflict of interest statement and directs Board members to disclose and document potential, perceived, or actual conflicts. Our process then calls for those forms to be collected and presented to the Board Chair and the Executive Director. Then for each corresponding vote, abstentions are announced. Our position remains that appointed Board members cannot and should not be told whether or how to vote. Furthermore, in every case where a board member had disclosed an actual conflict, the board member abstained from voting. For non-Board members, BWSR adopted a new conflict of interest form in March 2018.

BWSR will seek additional guidance from the Office of Grants Management to confirm the Board's approach on conflict of interest forms and processes.

**Responsible Person; Target Completion Date:** Mario Chavez, Compliance Coordinator; September 2018

## **Finding #3**

### **Recommendations:**

**The Board of Water and Soil Resources should implement controls to ensure compliance with funding source legal provisions.**

**The Board of Water and Soil Resources should correct the errors identified by this audit.**

BWSR has nearly completed the process to research identified errors and correct where needed. With new leadership in both our Fiscal/Administrative Services Section and in our compliance department, the agency's priority is to maintain good fiscal policies and improve or create processes and procedures with an initial emphasis on administrative expense categories. Over the past 12 months, the agency has been engaging in a significant overhaul of our fiscal management system. For example, on August 14, 2017 BWSR adopted a new time monitoring and reporting (activity reporting) procedure to ensure fund integrity by assigning and then checking staff time allotted to specific funding sources. BWSR is also evaluating and updating allocation methodologies to ensure charges are consistent and accurate across all eligible funding sources.

BWSR recognizes that in some instances throughout the audit period, documentation and justification of financial decisions was lacking. In the upcoming months, fiscal staff will receive additional training on policies and procedures, and protocols will be established to ensure complete and proper recordkeeping. Improved integration of the fiscal roles and functions across all of BWSR's divisional areas will be implemented so as to ensure a unified approach to financial operations.

**Responsible Person; Target Completion Date:** Jeremy Olson, Chief Financial Officer; December 2018 and ongoing

#### **Finding #4**

##### **Recommendations:**

**The Board of Water and Soil Resources should comply with state policies for processing payroll and accounting transactions.**

**The Board of Water and Soil Resources should manage security clearances to statewide systems in accordance to state policies.**

**The Board of Water and Soil Resources should correct the coding errors identified by this audit and collect amounts inappropriately paid to employees through expense reimbursement processing errors.**

BWSR generally agrees with the finding. We reviewed the data provided by the OLA and our analysis confirmed that account coding wasn't necessarily wrong, but rather we were inconsistent in our basis for choosing an accounting code. It looks largely to be the result of either: 1) interpretation of account code possibilities (e.g., the \$1.3M wetland banking credits easement payment was coded as an "intangible asset" which could be proper if the acquired asset was considered to be the credits and the easement was only the mechanism to secure the credits); and 2) when there was more than one account code that was interpreted as possible, our staff did not apply their interpretation consistently. BWSR recognizes that additional resources, protocols, and training are necessary for staff to follow a consistent best practice. We have made significant improvements in our internal protocol for use of account codes, and anticipate the completion of a master account code reference tool by December 2018.

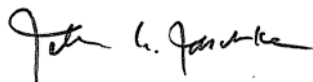
Several internal controls have been improved since the prior audits, and we have recently added to our staff a new internal controls and compliance officer.

BWSR recognizes that some processing errors existed in the state payroll system. The processing errors and referenced overpayment were immediately resolved following the initial audit period. The positions that administer and review the payroll and expense reimbursements have been evaluated and staffing adjustments are in process. Current and new staff will receive focused training in these areas. We plan to routinely review MMB policy and procedure to ensure that all necessary controls are in place. BWSR acknowledges the annual review of access to the State Accounting System was behind schedule. An initial review was conducted in 2017, a comprehensive review in 2018, and reviews will be repeated on a regular schedule.

**Responsible Person; Target Completion Date:** Jeremy Olson, Chief Financial Officer; December 2018 and ongoing

Your staff were professional and courteous throughout the audit. Thank you for the opportunity to respond to the final report.

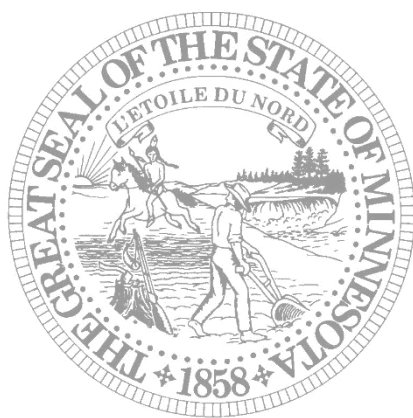
Sincerely,



John Jaschke, Executive Director  
Minnesota Board of Water and Soil Resources









## Financial Audit Staff

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