

Special Review

Minnesota Waterfowl Association



Financial Audit Division

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Mr. Gene Merriam, Commissioner
Department of Natural Resources

Mr. Michael McGinty, Executive Director
Minnesota Waterfowl Association

Members of the Minnesota Waterfowl Association Board of Directors

We have conducted a special review of the Minnesota Waterfowl Association's financial management of grants from the Department of Natural Resources for the period September 1999 through August 2002. The Minnesota Waterfowl Association is a nonprofit organization whose mission is to preserve, restore, develop, enhance, and protect Minnesota's wetlands and associated uplands. For fiscal years 2000 through 2003, the state awarded \$3.4 million of grants to the association. The Minnesota Waterfowl Association received grant funds through a state funded project, Restoring Minnesota's Fish and Wildlife Habitat Corridors. The "Corridors" project partnered 14 private conservation organizations, state, and federal government agencies with the goal of protecting and restoring wildlife habitat on a statewide scale. Total resources committed to the project, from all sources, exceeded \$20 million.

We conducted the review in response to complaints that questioned the Minnesota Waterfowl Association's financial management of state grant funds. The complaints alleged that the Minnesota Waterfowl Association had not properly accounted for state grant funds and had not complied with the terms of the grant agreement in its use of the state grant funds. Based on preliminary information obtained from the association, we decided to pursue the matter further and issue this special report.

This report is intended for the information of the Legislative Audit Commission, the management of the Department of Natural Resources, the Legislative Commission on Minnesota Resources, and the management of the Minnesota Waterfowl Association. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 12, 2003.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen
Deputy Legislative Auditor

End of Fieldwork: January 3, 2003

Report Signed On: March 10, 2003

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Audit Participation

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

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Jean Mellett, CPA, CFE	Investigator

Exit Conference

The following representatives from the Minnesota Waterfowl Association and the Department of Natural Resources participated in the exit conferences on March 3 and March 4, 2003:

Minnesota Waterfowl Association:

Bruce Philipson	President
Mike McGinty	Executive Director
Julia Cooper-Grear	Controller
Jim Hacking, CPA	Auditor
Dan Wrazidlo, CPA	Auditor

Department of Natural Resources:

Gene Merriam	Commissioner
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Brad Moore	Assistant Commissioner for Operations
Joe Kurcinka	Acting Chief Financial Officer
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Report Summary

We have conducted a special review of the Minnesota Waterfowl Association's financial management of state grants administered through the Department of Natural Resources. The Minnesota Waterfowl Association is a nonprofit organization established in 1967. The association's mission is to preserve, restore, develop, enhance, and protect Minnesota's wetlands and associated uplands through public education, legislative initiatives, and projects to benefit waterfowl, wildlife and the environment. For fiscal years 2000 – 2003, the state awarded the association grant funds totaling \$3.4 million, including funding for a project entitled, "Restoring Minnesota's Fish and Wildlife Habitat Corridors," which is referred to as the Corridors project.

Our objective in conducting this special review was to answer the following question:

- Did the Minnesota Waterfowl Association expend grant funds in accordance with legal requirements and grant contract provisions?

Key Conclusions

The Minnesota Waterfowl Association did not have the financial or organizational resources to properly administer the Corridors project grant. To improve its cash flow, the association prepared but did not send checks until it requested and received reimbursement from the Department of Natural Resources. The Minnesota Waterfowl Association used grant funds for some projects to pay expenditures of other projects. The executive director circumvented a significant accounting control by forging the treasurer's signature on some association checks to expedite payments to employees and vendors. Although we do not think there was criminal or fraudulent intent, this action was totally inappropriate and demonstrates that the organization did not have an effective control structure. In addition, the association did not pay vendors in a timely manner. At times, personnel changes made it difficult for the association to continue efficient operations. The association did not anticipate the need for back up or temporary staff to ensure timely vendor payments and timely reimbursement requests.

The Minnesota Waterfowl Association did not expend state grant funds in accordance with certain legal requirements and grant contract provisions. The association claimed reimbursement for ineligible costs for two projects. It allocated payroll, postage, and telephone charges rather than determining actual costs attributable to the grant projects. The association sought reimbursement for \$3,000 of work performed by vendors before the effective date of the Corridors project. In addition, the association inappropriately recorded \$7,243 of work outside the Corridors geographical area in the project account.

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Chapter 1. Introduction

Background

We have conducted a special review of the Minnesota Waterfowl Association's financial management of state grants administered through the Department of Natural Resources. The association is a nonprofit organization, established in 1967, to preserve, restore, develop, enhance, and protect Minnesota's wetlands and associated uplands through public education, legislative initiatives, and projects to benefit waterfowl, wildlife, and the environment. The association receives funding through grants, donations, fund-raisers, charitable gambling activities, and proceeds from memberships. For fiscal years 2000 through 2003, the state awarded the association grant funds totaling \$3.4 million. Table 1 summarizes the state grant funds awarded to the Minnesota Waterfowl Association for fiscal years 2000 through 2003.

Table 1
Grant Funds Awarded and Disbursed to the Minnesota Waterfowl Association
Fiscal Years 2000 through 2003

<u>Funding Source/Grant Program</u>	<u>Fiscal Year</u>	<u>Awarded</u>	<u>Disbursed</u> ⁽¹⁰⁾
Environment & Natural Resources Trust Fund			
Restoring Fish and Wildlife Habitat Corridors ⁽¹⁾	2002-2003	\$2,605,000	\$481,035
Other Trust Fund grants ⁽²⁾	2000-2001	6,600	4,938
Future Resources Fund:			
Enhancing Canada Goose ⁽³⁾	2000-2001	189,205	183,081
Enhancing Canada Goose ⁽⁴⁾	2002-2003	340,000	160,195
Local Initiatives Grant ⁽⁵⁾	2000	8,571	7,212
Game & Fish Fund:			
Heritage Enhancement Grants ⁽⁶⁾	2002-2003	197,476	197,476
Annual Minnesota Waterfowl Symposium ⁽⁷⁾	2001-2002	13,000	13,000
Lake Hanska Fish Barriers ⁽⁸⁾	2001-2002	70,000	69,851
General Fund Grant ⁽⁹⁾	2002	<u>1,600</u>	<u>1,600</u>
Total		<u>\$3,431,452</u>	<u>\$1,118,388</u>

Notes:

- (1) Minn. Laws (2001), First Special Session, Chapter 2, Section 14, Subd. 4(e).
- (2) Grants relating to an educational display and Minnesota Duck Habitat Days.
- (3) Minn. Laws (1999), Chapter 231, Section 16, Subd. 13(k). Appropriation allocated to the Department of Natural Resources, Ducks Unlimited, and the Minnesota Waterfowl Association.
- (4) Minn. Laws (2001), First Special Session, Chapter 2, Section 14, Subd. 4(c).
- (5) Minn. Laws (1997), Chapter 216, Section 15, Subd. 4(c).
- (6) Minn. Laws (2001), First Special Session, Chapter 2, Section 5, Subd. 8 (8). Appropriation provided funding to the Department of Natural Resources for grants to local outdoor sports clubs. Department of Natural Resources entered into four grant agreements with the Minnesota Waterfowl Association.
- (7) Minn. Laws (2001), First Special Session, Chapter 2, Section 5, Subd. 8.
- (8) Minn. Laws (2000), Chapter 463, Sec. 23, Subd. 2 (c) and Minn. Laws (1999), Chapter 231, Sec. 5, Subd. 7.
- (9) Grant relating to Shorebird Habitat.
- (10) Total disbursed to the Minnesota Waterfowl Association from September 1, 1999, through December 31, 2002.

Source: Grant contracts and the Minnesota Accounting and Procurement System.

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The Legislative Commission on Minnesota Resources (LCMR) oversees the distribution of Environment and Natural Resources Trust Fund and Minnesota Resources Fund grant monies. The association's largest state grant, for the Restoring Minnesota's Fish and Wildlife Habitat Corridors project, began with a proposal to the LCMR. The commission reviewed the proposal and recommended it to the Legislature for funding from the Minnesota Environment and Natural Resources Trust Fund. (The money in the Trust Fund comes from Minnesota's state lottery proceeds.) The Legislature appropriated funds to the Department of Natural Resources and named the Minnesota Waterfowl Association, other conservation groups, and several federal agencies as partners. Through the Corridors project, participating groups agreed to work together to restore and acquire fragmented landscape corridors that connect areas of quality habitat to sustain fish, wildlife, and plants. Total resources committed to the project, from all sources, exceeded \$20 million.

In July 2002, the Legislative Commission on Minnesota Resources asked the Office of the Legislative Auditor to review a complaint it received regarding the Minnesota Waterfowl Association. The complaint alleged that the Minnesota Waterfowl Association had not properly accounted for state grant funds and had not complied with the terms of the grant agreement in its use of the state grant funds.

In response to the request, we conducted a preliminary assessment to determine whether the issues warranted further review. Based on preliminary information obtained from the association, we decided to pursue the matter further and issue a special report.

Objectives and Methodology

Our objective in conducting this special review was to answer the following question:

- Did the Minnesota Waterfowl Association expend grant funds in accordance with legal requirements and grant contract provisions?

In conducting this special review, we examined the Minnesota Waterfowl Association's accounting records and interviewed its employees and certain current and former board members. We tested selected state grant expenditures for the period September 1, 1999, through August 31, 2002. We reviewed relevant documents, including the association grant agreements and reports. We also obtained additional information from the Legislative Commission on Minnesota Resources and the Department of Natural Resources. Our review was not a full audit of the association's financial records.

Chapter 2. Grant Administration

Chapter Conclusions

The Minnesota Waterfowl Association did not have the financial or organizational resources to properly administer the Corridors project grant. As a result, it used some “aggressive” cash management practices that violated the terms of the state’s reimbursement grant program. The Minnesota Waterfowl Association used grant funds for some projects to pay expenditures of other projects. The executive director circumvented a significant accounting control by forging the treasurer’s signature on some association checks to expedite payments to employees and vendors. Although we do not think there was criminal or fraudulent intent, this action was totally inappropriate and demonstrates that the organization did not have an effective control structure. In addition, the association did not pay vendors in a timely manner. At times, personnel changes made it difficult for the association to continue efficient operations. The association did not anticipate the need for back up or temporary staff to ensure timely vendor payments and timely reimbursement requests.

The Minnesota Waterfowl Association did not expend state grant funds in accordance with certain legal requirements and grant contract provisions. The association claimed reimbursement for ineligible costs for two projects. It allocated payroll, postage, and telephone charges rather than determining actual costs attributable to the grant projects. The association sought reimbursement for \$3,000 of work performed by vendors before the effective date of the Corridors project. In addition, the association inappropriately recorded \$7,243 of work outside the Corridors geographical area in the project account.

The Department of Natural Resources’ \$2,605,000 grant to the Minnesota Waterfowl Association for the Restoring Minnesota’s Fish and Wildlife Habitat Corridors (the Corridors project) required the association to work in partnership with the United States Fish and Wildlife Service, United States Department of Agriculture’s Natural Resources Conservation Service, the Bureau of Indian Affairs, Ducks Unlimited, and other contract partners. Total resources committed to the project, from all sources, exceeded \$20 million. Table 2 summarizes the Corridors project’s work plan and allocated budget.

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Table 2
Restoring Minnesota's Fish and
Wildlife Habitat Corridors Project Budget

<u>Work Program</u>	<u>Trust Fund</u>	<u>Other Sources</u>	<u>Total</u>
Work Program Initiatives Reimbursed through the Minnesota Waterfowl Association:			
Program Coordination and Mapping	\$ 352,000	\$ 0	\$ 352,000
Restoration & Management:			
Wildlife Lakes Initiative ⁽¹⁾	933,000	211,000	1,144,000
Partners for Wildlife ⁽²⁾	70,000	140,000	210,000
Circle of Flight ⁽³⁾	300,000	216,060	516,060
Conservation Easement Programs:			
Conservation Reserve Program	100,000	25,000	125,000
Northern Tallgrass Prairie Proposal ⁽²⁾	500,000	1,000,000	1,500,000
Wetlands Reserve Program ⁽⁴⁾	<u>350,000</u>	<u>4,064,998</u>	<u>4,414,998</u>
Subtotal	\$ 2,605,000	\$5,657,058	\$ 8,262,058
Work Program Initiatives Reimbursed to Other Partners: ⁽⁵⁾			
Restoration and Management	\$ 2,040,000	\$ 446,000	\$ 2,486,000
Conservation Easement Program	1,700,000	800,000	2,500,000
Habitat Acquisition Programs	<u>5,400,000</u>	<u>1,552,000</u>	<u>6,952,000</u>
Subtotal	\$ 9,140,000	\$2,798,000	\$11,938,000
Total Project ⁽⁶⁾	<u>\$11,745,000</u>	<u>\$8,455,058</u>	<u>\$20,200,058</u>

Notes:

- (1) The Minnesota Waterfowl Association and Ducks Unlimited are partners in this initiative.
- (2) The Minnesota Waterfowl Association processes reimbursement on behalf of the United States Fish and Wildlife Services.
- (3) The Minnesota Waterfowl Association processes reimbursement on behalf of the Bureau of Indian Affairs.
- (4) The Minnesota Waterfowl Association processes reimbursements on behalf of the United States Department of Agriculture's Natural Resources Conservation Service.
- (5) Legislative Commission on Minnesota Resources Corridor Grant Partners include: Minnesota Deer Hunters Association, United States Fish and Wildlife Service, Department of Natural Resources' Division of Wildlife, Bureau of Indian Affairs, Ducks Unlimited, Department of Natural Resources Division of Fisheries, National Wild Turkey Federation, Minnesota Land Trust, The Nature Conservancy, United States Forest Service, Department of Natural Resources' Division of Forestry, National Resources Conservation Service, Minnesota Board of Water & Soil Resources, Department of Natural Resources, Division of Ecological Services, Pheasants Forever, and Trust of Public Land.
- (6) Grant funds are to be expended within 11 project corridors which include: Aspen Parklands, Mississippi Headwaters, Border Prairie, Central Lakes, Lower St. Louis River, Upper Minnesota River, Alexandria Moraine, Big Woods-North, Des Moines River Valley, Southern Lakes, and Mississippi Bluff Lands.

Source: Legislative Commission on Minnesota Resources Project Budget, Work Program Expenditures and Accomplishments Spreadsheet prepared by the Minnesota Waterfowl Association.

The grant designated the Minnesota Waterfowl Association as the fiscal agent for the project. The fiscal agent is the entity that assumes the financial responsibilities for the project. It is the responsibility of a fiscal agent to safeguard project assets and ensure the propriety of all expenditures and the disposition of project assets. This encompasses a variety of duties,

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including timely bank account reconciliations, payments of project liabilities, and timely reporting to the grantor about the project's status and progress.

In addition to the Corridors grant, the association received various other grants. It received \$189,205 for fiscal years 2000/2001 and \$340,000 for fiscal years 2002/2003 for the Enhancing Canada Goose Hunting and Management Information project, funded through the Minnesota Resources Fund. These grants allowed the association to acquire leases on private farmlands for foraging sites and public hunting opportunities and to provide technical assistance to local units of government in developing controlled hunts for nuisance geese. The association also received, through the Department of Natural Resources, \$300,000 from the state's Game and Fish Fund for other projects, including nearly \$200,000 for the Heritage Enhancement Grant Program. Heritage Enhancement funds may only be spent on activities that improve, enhance, or protect fish and wildlife resources, such as habitat improvement projects on wildlife management area lands.

Conclusions

The Minnesota Waterfowl Association did not have the financial or organizational resources to properly administer the Corridors project grant. As a result, it used some "aggressive" cash management practices that violated the terms of the state's reimbursement grant program. Finding 1 explains ways in which the association failed to meet its fiscal agent responsibilities.

The association did not restrict the costs it charged to the state's grant programs to those allowable in the grant agreement, as explained in Finding 2. It allocated payroll, postage and telephone charges rather than determining actual costs attributable to the Corridors project grant. It inappropriately sought reimbursement for \$3,000 for ineligible charges incurred prior to the effective date of the Corridors project. In addition, the association inappropriately recorded \$7,243 of work outside the Corridors geographical area in the project account.

1. The Minnesota Waterfowl Association did not have sufficient financial or organizational resources to properly administer the Corridors program.

The Minnesota Waterfowl Association was not prepared to act as the fiscal agent for the Corridors program, which was much larger and more complex than other state grants it had previously received. The grant agreement required that the grant operate on a reimbursement basis, requiring that the association pay all program costs and then submit reimbursement requests to the Department of Natural Resources for review and payment. The association established a separate bank account and expanded its chart of accounts to record financial transactions relating to the Corridors project, but it did not isolate Corridors project financial activity to these accounts. The association did not have the financial resources to cover the initial costs associated with the Corridors program. The executive director described the association's grant cash management practices as "aggressive," but some tactics the association used were inappropriate:

- The association improperly used Corridors project funds from the United States Fish and Wildlife Service for general association operating expenses. In October 2001, the United States Fish and Wildlife Service wire transferred \$70,000 into the association's general

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bank account. The association used the funds to pay for expenses not related to the Corridors project. The association repaid the Corridors project account over a nine-month period, with the final repayment amount deposited to the Corridors project bank account in August 2002.

- The association used grant funds to pay for the costs of other projects. In July 2002, the association received \$197,476 from the Department of Natural Resources as advance funding for the Heritage Enhancement grants. The association's August bank reconciliation identified a negative \$70,414 cash balance. At this time, the association had only incurred, but not yet paid, \$12,744 in costs for the Heritage Enhancement program. Thus the association used the grant funds to pay expenditures unrelated to the Heritage Enhancement program. The association had not restored the funds to the Heritage account as of August 2002.
- In some instances, the Minnesota Waterfowl Association prepared but did not send checks until it requested and received reimbursement from the Department of Natural Resources. Of the 18 Corridor project reimbursements received by the Association for the period November 2001 through April 2002, we identified 8 instances, one as recent as March 2002, in which the association appeared to hold checks to vendors until the state reimbursement was received. For example, on November 6 and 7, 2001, the association wrote seven checks totaling \$19,443 for Corridor grant expenses. On November 9, 2001, the association submitted a reimbursement request to the department; it received the grant funds on November 27, 2001. The association's bank statements showed that the checks to the vendors did not clear the account until November 29 and 30, 2001. By requesting reimbursement for costs not yet paid, the association violated terms of the grant agreement. In addition, the delay in paying vendors for their services hurt the integrity of the association and the project.
- In 2001, the executive director circumvented a significant accounting control by forging the treasurer's signature on some association checks paid to employees and vendors. Although we do not think there was criminal or fraudulent intent, this action was totally inappropriate and demonstrates that the organization did not have an effective control structure. The executive director did not seem to personally benefit from the transactions. He stated that he signed the treasurer's name to expedite payment due to the treasurer's unavailability. When the board learned of the situation, it told the executive director to discontinue the practice, but did not implement any oversight practices to determine or detect forgeries should they occur.
- At times, personnel changes made it difficult for the association to continue efficient operations. The association did not anticipate the need for back up or temporary staff to ensure timely vendor payments and timely reimbursement requests. This contributed to some of the association's cash flow problems and to some of the grant compliance issues discussed in Finding 2.
- The state typically specifies that it will disburse grant funds on a reimbursement basis to maximize its investment income and to safeguard state funds from misuse. By requiring evidence that the grantee has appropriately spent the funds, the oversight agency has the

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opportunity to verify compliance with the grant agreement and work plan before paying for the work performed. The Legislative Commission on Minnesota Resources expects that organizations requesting grant funds have the ability to operate the program on a reimbursement basis. Had it been aware that this was a hardship for the association, it may have made other project financing arrangements, or it may not have designated the association as the fiscal agent.

When the Corridors grant program encountered cash flow difficulties, the association did not discuss the need for changes to the grant agreement with either the Department of Natural Resources or the Legislative Commission on Minnesota Resources. Since the association did not maintain official copies of board of director meeting minutes, it was not possible to determine what information the board received, what items it discussed, or what actions it took. A board member should sign a copy of the approved meeting minutes, and the association should maintain these signed copies as the official record of the meetings.

Recommendations

- *The Department of Natural Resources should work with the Legislative Commission on Minnesota Resources to evaluate the Minnesota Waterfowl Association's ability to administer the Corridor project grant, including whether the association can operate on a reimbursement basis or if it should amend the grant agreement to allow for partial advance program funding.*
- *The Department of Natural resources should require that the association restore the Heritage Enhancement program funds.*
- *The association should only request reimbursement for costs it has actually incurred.*
- *The association should establish an organizational structure sufficient to ensure that it can competently conduct the financial activity of the state's grant programs, including making timely payments to the program's vendors, requesting timely reimbursements from the state, and ensuring independent review of financial activities.*
- *The board should maintain an official record of its board meeting minutes to document board discussions and actions taken.*

2. The Minnesota Waterfowl Association did not comply with the terms of the grant agreement concerning allowable costs.

The Minnesota Waterfowl Association charged some ineligible costs to the Corridor and the Enhancing Canada Goose Hunting and Management Information grants. The association used estimates to allocate employee time, postage, telephone and fax expenses to these grant programs. The association believed its allocation method met contract guidelines. The grant contracts however, provided that eligible costs were those costs directly incurred by the project

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activities that were solely related to and necessary for producing the work products. The association should have obtained prior written approval from the Department of Natural Resources and the Legislative Commission on Minnesota Resources before using a cost allocation plan as a substitution for actual costs.

The association also included some travel expenses in its reimbursement requests that were ineligible under the Corridors grant. The Corridors grant contract limited reimbursable transportation and travel expenses to amounts established in the state's Commissioner's Plan, a bargaining agreement for some state employees. The Commissioner's Plan authorizes payment of employee meals only under certain conditions and sets limits on the amount of meal reimbursements. Although the costs claimed exceeded the limits by only nominal amounts, the association sought reimbursement for meal and beverage charges that did not qualify under the Commissioner's Plan for reimbursement.

In addition, the association requested and received approximately \$3,000 for work that vendors performed before July 24, 2001, the date the commission approved the Corridors work plan and authorized the association to begin incurring Corridor project expenditures. The association used Corridors funds to pay for some vendor work performed as early as September 2000, over ten months before the effective date of the Corridor's project. The association should reimburse these funds to the Corridors project.

The association also inappropriately included \$7,243 of work that vendors completed outside the Corridors geographical area in project accounts in the association's general ledger. The inaccurate recording of expenditures could result in the association overstating its level of project participation.

The association's accounting policies and procedures were not adequate to ensure that its accounting personnel were aware of grant contract provisions and financial requirements, which may have contributed to some of the exceptions noted above. Staff turnover may also have been a factor in the delays in processing accounting transactions, including vendor payments and requests for reimbursements for state grant projects.

Recommendations

- *The Minnesota Waterfowl Association should repay the state for ineligible costs included on reimbursement requests, approximating \$3,000.*
- *The Minnesota Waterfowl Association should ensure that it does not report ineligible expenditures in the Corridors project accounts.*
- *The Minnesota Waterfowl Association should pay program vendors in a timely manner.*

Minnesota Waterfowl Association, INC

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March 10, 2003

Mr. James R. Nobles,
Legislative Auditor
Room 140, Centennial Building
658 Cedar Street
St. Paul, Minnesota 55155-1603

Re: Special Review of Minnesota Waterfowl Association

Dear Mr. Nobles:

I am writing to provide the formal response of the Minnesota Waterfowl Association (MWA) to your office March 2003 Special Review Report (the Report). At the outset, we are pleased to note that the Report found no issues with five of the nine grant programs you examined and raised only minor issues regarding another two of the nine grant programs you reviewed.¹ We believe that the findings regarding these seven grant programs are consistent with MWA's 37-year history of service promoting and protecting Minnesota's natural resources.

That history and service in the conservation community was a significant reason behind the decisions to select MWA for the grants that are the subject of the Report. It is significant that, with the exception of some of the Heritage Enhancement grant funds identified in the Report, all of the \$1,118,338.00 have been spent on projects intend to benefit by the grant funds. Moreover, even the Heritage Enhancement grant funds identified in the Report will be spent on the intended projects in the future. As a result of the grants disbursements, particularly the Corridors project, significant acreage has been protected, preserved and restored across Minnesota. These accomplishments demonstrate the value of the grant program and the importance of continuing funding for these projects.

Having said that, we take very seriously your findings and conclusions regarding the remaining two grant programs you reviewed the Restoring Fish and Wildlife Habitat Corridors (Corridors Grant) and the Heritage Enhancement Grants (Heritage Grant). The purpose of this letter is to provide readers of the Report with some context for the findings, to explain the steps

¹The only finding that raised any issues with the 2000-01 or 2002-03 Enhancing Canada Goose Grant Programs suggested that it was inappropriate to use estimates to allocate employee time, postage, telephone and fax expenses to these grant programs. Although we believe (as the report acknowledges) that such an allocation protocol is consistent with the requirements of the grants, we will be working with the Department of Natural Resources (DNR) and the Legislative Commission on Minnesota Resources (LCMR) to ensure that future allocation practices are consistent with their interpretations of the grant requirements.

that have been taken and will be taken to address the issues raised by your findings, and to comment on the conclusions you have drawn from the findings. Finally, this letter will also comment on the recommendations you have made for MWA as well as the DNR and the LCMR.

I. FINDINGS AND CONCLUSIONS

The Report makes numerous findings, which ultimately lead to two conclusions first, that MWA “did not have the financial or organizational resources to properly administer the Corridors Program” and, second, that MWA did not “comply with the terms of the grant agreement concerning allowable costs.” While several of the findings are accurate and may lead to the conclusion that there was technical noncompliance with the grant requirements, the findings do not support the conclusion that MWA did not have the financial or organizational resources to administer the grants. Moreover, the report ignores numerous procedural changes adopted by MWA since the award of the Corridors Grant that have improved its financial and organizational capabilities to administer the Corridors Grant.

A. Findings and Conclusions Regarding Financial and Organizational Capabilities.

1. US Fish and Wildlife October 2001 Funds finding.

Shortly after the Corridors project began, the US Fish and Wildlife Service electronically transferred \$70,000 into MWA’s general account. No notification of this transfer was received resulting in an inadvertent usage on other expenses. When MWA officials realized this happened, we worked with our outside professional accountants to establish a separate bank account on November 5, 2001 to minimize the chance that such a mistake would happen again. At the same time, we expanded our chart of accounts to record financial transactions relating to the Corridors project. As the Report notes, all of the funds have been repaid.

It is important to note that there is no suggestion that MWA intended to divert these funds or that the funds have not ultimately been used for their intended purpose. Significantly, we did not “direct” that the funds be deposit into our general account rather than the Corridors account - - they were transfer into the account without any notice to us. Moreover, although we have since set up a separate Corridors account to minimize the chance of similar mistakes at the time of the transfer no Corridors account existed. Rather than any effort to use funds inappropriately, this issue involved an honest error that occurred near the inception of MWA’s administration of the Corridors grant that has been remedied in a way that minimizes the likelihood of it being repeated in the future.

2. Heritage Enhancement Grant Finding.

MWA operates on a fund accounting basis allowing the organization to account for funds separated on the general ledger. It was the organization’s understanding that in dealing with these grants that liquid assets, which include cash from all bank and checking accounts, marketable investment accounts and grants receivables, were needed to satisfy the Heritage Enhancement fund balance at all times. As a result of the audit, it has been brought to our attention that we need to maintain a cash balance at all times, not just periodically, equivalent to

any unfulfilled temporary restrictions imposed by restricted grants. MWA has always maintained liquid assets to satisfy grant restrictions. More importantly, the organization has always successfully fulfilled all grant obligations as they have come due over the life of the grant. The Heritage Enhancement grant is for \$197,476.00 and scheduled to run until June 30, 2004. To date, MWA has expended \$92,078.41 for wetland and grassland restoration projects on state-owned wildlife management areas. As we collect our receivables from our reimbursable grants we will restore the remaining balance in separate bank account to comply with the findings of the legislative auditors. In addition, we have modified our policy regarding restricted funds and our fund accounting to require cash on hand rather than other liquid assets for any unspent balance of restricted funds in our possession.

3. Reimbursement Requested Before Funds Expended Finding.

This finding implies that MWA intentionally sought reimbursement for payments that had not been made as a cash management tool. That implication is inaccurate. The November 6 and 7 checks identified in the findings were the first written out of the Corridors account opened on November 5. The checks were written to a vendor who was required to submit a W-9 form documenting the payment. To ensure that the W-9's were submitted, MWA did not mail the checks until the W-9 was received. This same situation occurred in March 2002. The organization considered the expenditure to be reimbursable upon issuance of the check. As the program matured, our process became more streamlined requiring vendors to submit W-9's along with their invoices. It is noteworthy that we were proactive in recognizing and taking steps to correct this situation. Our remedies (including the OLA recommendation that checks be mailed before requesting reimbursement) were already in place before the legislative audit.

4. Circumventing Accounting Controls.

Although this finding is accurate, some factual context is needed to fully understand it. Prior to the December of 2000, the administrator signed the general account checks for operational expenses like payroll. Each month, the MWA Board of Directors reviews the disbursement journal as a means of monitoring these expenditures. When the administrator unexpectedly departed in December of 2000, the organization contracted with an outside accounting firm to provide an administrative person to perform various bookkeeping and administrative duties, including preparing checks for vendors and employees and reconciling bank accounts and other related functions (attached letter from John James, LTD., CPA). During this time, from mid-January through March, the organization was dependent upon a volunteer treasurer, who resided in greater Minnesota, to sign association checks. At that time, (prior to the award of the Corridors grant) the Executive Director could not sign checks out the general account because he was serving as the gambling manager for the organization's charitable gambling operation and was limited to signing checks only from the gambling account. Unfortunately, the only individual authorized to sign checks from the general account (the volunteer treasurer) was not always available to sign checks that needed to be issued to vendors

and employees. In an admittedly misguided attempt to insure that vendors and employees providing services to the organization were not forced by this situation to forego payment, the Executive Director signed some checks for the treasurer until the situation could be corrected. There was no personal benefit to the Executive Director and, since the checks were being drafted by MWA's outside accounting firm at the time, there was no risk of funds being directed anywhere other than to appropriate recipients. Significantly, the Executive Director's interim practice was discontinued as soon as additional personnel were hired, including a new administrator in April of 2001, allowing checks to be written in a timely manner. The Board was informed of the issue. There have not been any similar problems since early 2001 because the organization has grown sufficiently to handle such logistical issues.

5. Personnel Finding.

MWA knew that the administration of the Corridors grant would require a strong administrative staff. We believed that our existing staff and additional administrative hires were capable of dealing with the complexities and scope of the program. This was not the case and contributed early on to accounting problems resulting in cash flow issues leading to slow vendor payments and slow reimbursement requests. As activity increased from the grants, we recognized the need to secure a more highly qualified accounting staff.

Prior to the OLA review, we engaged the services of our outside accounting firm to assist us in the search for qualified individuals. This resulted in the hiring of a highly qualified CPA with an MBA as our controller. This person comes to us with extensive non-profit background and experience with organizations much larger than MWA. Prior to the hiring of a qualified internal accountant we also hired an administrative assistant with fifteen plus years of non-profit administrative experience. As we have put these administrative resources in place, the timeliness of our vendor payments has been improved so that we have been current. The addition of these individuals has also improved our cash management and the timeliness of our reimbursement protocol and overall control of our accounting procedures.

4. Meeting Minutes.

The Report alleges that we failed to maintain official Board of Director's meeting minutes. This is simply not true. Hard copies of previous meeting minutes are distributed and approved at each subsequent meeting. All directors and members in attendance receive these copies, and any director not in attendance is mailed a copy. In addition, copies are kept in the State Office along with electronic file copies. The OLA has requested that we maintain a signed copy of each meeting's minutes in a bound format. Although not required by any law, we will modify our procedures to include this practice.

B. Violations of the Grant Agreement Concerning Allowable Costs.

1. Using Cost Allocation Instead of Actual Costs.

When we applied for the Corridors grant, we included a detailed budget of estimated administrative costs, including the items identified in this finding. We were under the impression that approval of budgeted administrative costs constituted permission to submit those expenses for reimbursement. Accordingly, when MWA submitted reimbursement requests it included amounts from the estimated budget for these administrative expenses. This resulted in reimbursement requests for no more than the original budget. And, in fact, some reimbursement requests were for less than the budgeted amounts due to changes in personnel. Thus, although MWA submitted reimbursement requests for less than the administrative expenses originally approved, it is happy to work with DNR / LCMR regarding future administrative costs reimbursement requests.

2. Travel and Meal Expenses.

Through November of 2002, nearly \$800,000.00 in LCMR funding had been appropriately spent and reimbursed. Yet, as stated in the report, some overcharges on travel and mileage expenditures had been claimed and reimbursed. Unknowingly, some employees sought reimbursement in excess of allowable limits, which was due to a lack of understanding between differences in MWA's own expense reimbursement policy and that of the Commissioner's Plan. These reimbursements included travel and transportation costs, which are limited under the Commissioner's Plan that authorizes payment of employee meals and transportation only under certain conditions and sets limits on the amount of meal reimbursements. However, because of the nominal amount involved (less than a total of \$100.00 identified by the legislative auditor), no repayment was requested or recommended. Yet, to safeguard against possible overcharges in the future, the organization is conducting a thorough review of reimbursement policies with all employees involved in reimbursable state grants. Copies of Commissioner's Orders outlining allowable expenses will once again be forwarded to these individuals.

3. Reimbursement for Work Performed Before Effective Date of the Grant.

As of the November 2002 Corridor's work program update, MWA had processed 99 invoices expending \$55,200.00 on CP-23 projects (the only program within the Corridors projects cited by the OLA) leading to the restoration of over 2,500 wetland acres. The legislative auditor identified 7 of the 99 invoices totaling \$3,141.25 that involved work performed before the effective date of the grant. Of these seven invoices, four resulted from mistakes made by the USFWS Minnesota Private Lands Office. They relied upon the certification date rather than the construction date for submission for reimbursement. The remaining three invoices (totaling \$1,266.25) were oversights on our part. The grand total of \$3,141.25 has been repaid by MWA. A strengthen review process was implemented requiring clear identification of dates and location

Mr. James Nobles
March 10, 2003
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by the Minnesota Private Lands Office, and a double-check sign-off on construction dates, geographic location, etc. by MWA administration to insure accuracy and compliance with program guidelines. This strengthened process has prevented any other unintentional requests for ineligible program reimbursements.

4. Recording of Outside Costs in Project Accounts.

The report asserts that we “inappropriately included \$7,243.00 of work that vendors completed outside of the Corridors geographical area in project accounts in the Association’s general ledger.” This was an accidental coding error, which was caught by MWA administration prior to any requests for reimbursement and prior to the legislative audit. MWA never sought any reimbursement nor cited this effort as an accomplishment in the Corridors work program.

II. RECOMMENDATIONS

The Report examined nine grant programs administered by MWA. Five of those programs had no problems. All but one of the problems identified in the remaining programs have been remedied. All that remains to be done to fully remedy the problems identified in the Report is completion of expenditures of Heritage Enhancement grant funds on the projects for which they were intended. Significantly, many of the problems identified by the Report had been independently identified by MWA and remedied before the OLA Audit. In addition, pending the completion of expenditures on the Heritage Enhancement Grant, all of the funds disbursed to date have been directed to projects for which the grant monies were intended.

The Report recommends that LCMR and DNR evaluate our ability to continue to administer the grants. We welcome that evaluation and believe that it will lead to the conclusion that MWA is fully capable of continuing to administer these grants. As noted in this response and in the attached letter from our independent auditor, Jim Hacking, MWA has made a number of changes in its operation since the Corridors Grant was awarded. Those changes (many of which have been outlined above) have put MWA in position to meet the responsibilities and requirements imposed by the grant while continuing to preserve and protect the natural resources targeted by the grants.

Sincerely,

/s/ Michael E. McGinty

Michael E. McGinty, Executive Director
Minnesota Waterfowl Association

cc: MWA Board of Directors

JOHN M. JAMES LTD.
CERTIFIED PUBLIC ACCOUNTANTS
5469 HIGHWAY 12 • P.O. BOX 429
MAPLE PLAIN, MINNESOTA 55359
E-mail: jjames1@jjamesltd.com
(763) 479-1499 • FAX (763) 479-2746

John M. James, CPA

March 3, 2003

To Whom It May Concern:

Since 1995 my CPA firm John M. James, Ltd has provided professional support to the Minnesota Waterfowl Association. Services included: professional guidance on a variety of topics, preparation of monthly charitable gambling tax reports, and through the year ended May 31, 2001 the preparation of the annual audit for the general fund and the gambling fund.

During a brief period of mid-January 2001 through March of 2001 the Minnesota Waterfowl Association contracted with my office for an administrative person. This person was to perform various bookkeeping and administrative duties while the organization replaced a person who had left unexpectedly. The duties included preparing checks for vendors and employees and reconciling various bank accounts and other related functions.

I can be reached for additional discussion by calling the number above.

Sincerely,

/s/ John M. James

John M. James, CPA

March 10, 2003

Mr. Mike McGinty, Executive Director
Minnesota Waterfowl Association
3750 Annapolis Lane, Suite #135
Plymouth, Minnesota 55447

Re: Legislative Audit of Minnesota Waterfowl Association

Dear Mr. McGinty:

On behalf of the Board of Directors of the Minnesota Waterfowl Association (“Organization”), you have requested that we respond to an assertion by the Office of the Legislative Auditor (“OLA”) that the Organization did not have the financial or organizational resources to properly administer the Corridors Grant Program. Based on the detailed discussion below, we believe the Organization has the financial and organizational resources to properly administer the Corridors Grant Program.

Background

On November 7, 2002 our CPA firm was formally engaged to perform the annual General Fund audit of Minnesota Waterfowl Association for the fiscal year ended May 31, 2002. We were engaged at this late date when the Organization was informed at the end of October 2002, by their previously engaged auditor, that the audit firm had been sold and that the audit had not started and would not be completed by the previous owner.

We have been previously engaged by the Organization over the last five years to perform the annual Charitable Gambling Fund audit as required by Minnesota State Statute. These audits are performed in accordance with certain guidelines as established by Minnesota Department of Revenue in conjunction with the Gambling Control Board. Our audits on the charitable gambling activities resulted in an unqualified audit opinion in each of the five years including the fiscal year ended May 31, 2002. An unqualified opinion is the best audit opinion an Organization can receive from an independent auditor.

Response to the OLA Assertion Regarding Financial and Organizational Capability

We have completed our field work in connection with the annual General Fund audit of the Organization as of May 31, 2002. Our audit report dated January 15, 2003 resulted in an unqualified opinion. Our report states that the financial statements present fairly, in all material respects, the financial position of Minnesota Waterfowl Association, Inc. as of May 31, 2002, and the changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit procedures revealed many of the same findings as those made by OLA. While we concur with many of their findings and recommendations, the period and scope of our audit differs from the OLA Audit. Thus we can only attest to what we know to be true as of May 31, 2002 and comment on subsequent events that we have knowledge of.

Financial Resources:

As of May 31, 2002, the Organization had total net assets of \$700,815 and current assets of \$440,842. The current assets as of May 31, 2002, reflected cash balances of \$94,471 and grants receivable of \$274,368. As of the balance sheet date, we feel the Organization had the financial resources to administer the Corridors Grant Program. Our major concern was the lack of a budget for the upcoming year and years two through five. While the lack of a budget was the result of turn over in accounting personnel, our recommendation to the Organization was to hire more highly qualified accounting personnel and prepare budget and cash flow projections to ensure the proper use of the financial resources and plan for any future cash flow needs going forward. This is absolutely necessary in order to effectively manage a program of this magnitude.

Subsequent to the balance sheet date the Organization has hired qualified accounting personnel to prepare an annual budget and monitor the cash flow requirements of the Organization. It is our understanding that budgets are in the process of being prepared. To further bolster cash requirements of the Corridors Grant Program we verified that the Organization has secured a \$100,000 line of credit with the bank. This occurred subsequent to May 31, 2002, and the date of the OLA field work. The confidence of the bank to give the Organization a credit line of this magnitude further illustrates the Organization's financial capacity to administer the Corridors Grant Program.

Organizational Resources:

The other issue relates to whether Minnesota Waterfowl Association had the organizational resources to properly administer the Corridors Grant Program. In July 2003, we recommended that the Organization hire a more qualified accountant with extensive non-profit background to ensure that all proper accounting procedures are followed. We understood from our discussions with the Organization at that time that it had been concerned about turnover in personnel with accounting expertise and was making efforts to address that concern. Hence, we concur (as it appears the Organization does) with the concerns raised by the OLA Audit as it relates to proper accounting personnel. What is critical to address is what the Organization has done subsequent to the balance sheet date of our audit and the date of the OLA field work.

In addressing the subsequent steps taken by the Organization, we feel that some context to the situation the Organization found itself in is appropriate. First of all, the Organization is comprised of primarily volunteers. The Organization has grown to 55 chapters throughout the state. Over the years, the Organization has effectively and responsibly fulfilled its mission and purpose with volunteers in order to ensure that every dollar possible is used for their mission and not for expensive administrative overhead.

This volunteer heritage has made the Organization especially vigilant regarding general and administrative expenses -- the Organization has spent less than 10% of their total support on general and administrative expenses in each of the last three years. This is well under federal and state guidelines for non-profit organizations.

With a Board of Directors comprised of volunteers, the Organization has adhered to and met the extensive and highly regulated requirements imposed by Minnesota Department of Revenue with relation to the Organization's charitable gambling operation. All this was done to further the Organization's mission. We believe the Organization's prudent fiscal track record had a great deal to do with their appointment as the fiscal agent of the Corridors Grant Program.

Notwithstanding the positive attributes of minimizing expenditures on administrative and general items, management of a grant of the magnitude of the Corridors Grant required the Organization to make greater administrative and general expenditures in order to secure the staff necessary to effectively administer and carry out the requirements of the Corridors Grant Program. The Organization realized this once the Corridors Grant was awarded and dollars started flowing through the Organization. As part of its on-going effort to secure competent accounting staff, the Organization asked us to be involved with the interview process for a new internal accountant to help insure the right person is hired in order to meet the accounting demands of the Organization. This culminated in the hiring of person who is both a CPA and an MBA. This person comes to the Organization with extensive non-profit background and experience with organizations much larger than Minnesota Waterfowl Association.

Prior to the hiring of a qualified internal accountant, the Organization hired an administrative assistant with 15 plus years of non-profit administrative experience to ensure they have the proper organizational resources to administer all grants received.

Summary

We believe the hiring of these qualified individuals puts Minnesota Waterfowl Association in a position to effectively administer not only the Corridors Grant Program, but future grants as well. The Organization did not have people of these qualifications before, as the Organization was operating on a smaller scale and their budgets did not allow for it. The Organization has already corrected many of the issues identified in the OLA Audit findings and clearly has demonstrated its willingness to correct all the remaining findings of our audit and the OLA Audit. We believe they have hired the right people to establish and implement stronger internal controls for the Organization, set budgets, manage cash requirements, and ensure that all grant requirements are met. It is our opinion that the hiring of people of this caliber by in large addresses the majority of the findings in our audit and the OLA Audit.

Page IV
March 10, 2003

This Organization has a great mission and purpose. More importantly, based on past history, we can attest to subsequent events which demonstrate the changes being made, a commitment to quality and integrity, and willingness of the Organization to do things the right way.

Sincerely,

/s/ James R. Hacking

James R. Hacking, LTD

Minnesota Department of Natural Resources
OFFICE OF THE COMMISSIONER
500 Lafayette Road
St. Paul, Minnesota 55155-4037

March 5, 2003

Mr. James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
658 Cedar Street
St. Paul, Minnesota 55155

Dear Mr. Nobles:

Thank you for the opportunity to respond to the findings of the special review of the Minnesota Waterfowl Association financial management of grants from the Department of Natural Resources for the period September 1999 through August 2002.

Audit Finding 1: The Minnesota Waterfowl Association did not have sufficient financial or organized resources to properly administer the corridors program.

Audit Recommendation: The Department of Natural Resources should work with the Legislative Commission of Minnesota Resources to evaluate the Minnesota Waterfowl Association's ability to administer the Corridor project grant, including whether the association can operate on a reimbursement basis and if it should amend the grant agreement to allow partial advance program finding.

At this time, given the severity of the Legislative Auditors findings, the Department of Natural Resources does not agree that we should work with the Legislative Commission of Minnesota Resources to evaluate the Minnesota Waterfowl Associations' ability to administer project grants. The Department of Natural Resources has determined from the findings that the Minnesota Waterfowl Association, at this time, cannot be relied upon to act as the fiscal agent for the current grants they are administering. The Department of Natural Resources will provide written notification to the Minnesota Waterfowl Association that it is suspending all financial activity with the association. The Department of Natural Resources will require that all fund expenditures are accounted for and all unspent funds are returned to the Department of Natural Resources. In the future, the Department of Natural Resources may re-evaluate the Minnesota Waterfowl Association's ability to act as a viable fiscal agent.

Audit Recommendation: The Department of Natural Resources should require that the association restore the Heritage Enhancement program funds.

The Department of Natural Resources agrees that the Minnesota Waterfowl Association must deposit all the Heritage Enhancement program funds into a separate bank account and remit all funds that were not appropriately expended to the Department of Natural Resources.

Audit Recommendation: The association should only request reimbursement for costs it has actually incurred.

The Department of Natural Resources agrees that the Minnesota Waterfowl Association should only request reimbursement for costs that the association has actually incurred. The Department of Natural Resources will require that the Minnesota Waterfowl Association provide original supporting documentation for all grant expenses that the association has requested reimbursement for.

In the future, the Department of Natural Resources will perform selected post grant reviews of grantee's original supporting documentation.

Audit Recommendation: The association should establish an organizational structure sufficient to ensure that it can competently conduct the financial activity of the state's grant programs, including making timely payments to the program's vendors, requesting timely reimbursements from the state and ensuring independent review of financial activities.

The Department of Natural Resources agrees that the Minnesota Waterfowl Association should establish an organizational structure sufficient to ensure that it can competently conduct financial activity of the state's grant programs. The Department of Natural Resources will not provide financial resources to organizations that cannot demonstrate fiscal responsibility.

In the future, the Department of Natural Resources will review selected grantee's fiscal ability to administer grants before they are awarded

Audit Recommendation: The board should maintain an official record of its board meeting minutes to document board discussions and actions taken.

The Department of Natural Resources agrees that the boards of all associations and other entities applying for grants need to maintain official records of their meetings to document all board actions. The Department of Natural Resources will require that the

board of directors maintain written copies of all board meetings and have them readily available for review upon request.

Audit Finding 2: The Minnesota Waterfowl Association did not comply with the terms of the grant agreement covering allowable costs.

Audit Recommendation: The Minnesota Waterfowl Association should pay program vendors in a timely manner.

The Department of Natural Resources agrees that the Minnesota Waterfowl Association should pay program vendors in a timely manner. The Department of Natural Resources will require that the Minnesota Waterfowl Association pay only those vendors with outstanding payments owed to them prior to the association's date of written notification from the Department of Natural Resources.

In the future, the Department of Natural Resources will perform selected post grant reviews of grantee's original supporting documentation.

Again, thank you for the opportunity to respond to your audit findings and recommendations. We appreciate the professional and helpful manner of the staff from your office.

Sincerely,

/s/ Gene Merriam, Commissioner

Gene Merriam, Commissioner
Department of Natural Resources

LEGISLATIVE COMMISSION ON MINNESOTA RESOURCES

100 REV. DR. MARTIN LUTHER KING JR. BLVD. - ROOM 65

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John Velin, Director

February 25, 2003

James Nobles
Legislative Auditor
Office of the Legislative Auditor
Rm. 140 Centennial Building
658 Cedar Street
St. Paul, MN 55155-1603

RE: Comments on Special Review: Minnesota Waterfowl Association

Dear Mr. Nobles:

I appreciate the opportunity to comment on the Office of the Legislative Auditor's special report that reviewed the Minnesota Waterfowl Association's administration of several state-funded grants. My comments are confined to providing clarification and an update on the LCMR oversight of the fiscal management of the LCMR project (ML 2001, 1st Special Session, Ch. 2, Sec. 14, Subd. 4(e)) titled "Restoring Minnesota's Fish and Wildlife Habitat Corridors" which began on July 2001.

The "Habitat Corridors" Project consists of a partnership of 14 different state and federal agencies and nonprofit organizations.

The LCMR manages the work programs of the organizations and the DNR administers the contracts on a reimbursement basis. The scope of work and allowed expenses are detailed in the work program.

1. MWA Fiscal Agent Role: LCMR staff set up the "Habitat Corridors" project using separate grant agreements and work programs for each partner activity to ensure direct accountability and to limit any financial burden on MWA as the coordinator of the project. The goal was to have MWA serve as a project coordinator, not a financial coordinator or fiscal agent for the project as a whole. There were; however, several exceptions. The federal agencies requested that they be a subcontractor to MWA and not have a direct grant agreement with the state. In addition, MWA was the fiscal agent on one project which was joint between MWA and another nonprofit. MWA receives administrative dollars through the "Habitat Corridors" appropriation for coordination activities and any fiscal agent role.

Senators: Ellen Anderson, Richard Cohen, Dennis Frederickson,
Linda Higgins, John Marty, James Metzen, Dallas Sams, Jim Vickerman.

Representatives: Dennis Ozment, Chair; Irv Anderson, Ron Erhardt,
Tom Hackbarth, Jim Knoblach, Mark Olson, Howard Swenson, Kathy Tingelstad.

As a result of several fiscal issues brought to our attention in Fall 2002, the LCMR staff, began to further remove MWA as the fiscal agent with one of the federal agencies and the nonprofit cited above and sought to establish a direct contractual relationship between DNR and those entities. It is my intention to further separate the remaining fiscal agency responsibilities of MWA on this project.

2. Reporting Requirements: Work programs are a required part of each LCMR appropriation. Originally, MWA served as the coordinator of all the partners reporting. In March 2002, LCMR staff requested that MWA no longer play this role and the partners report directly to the LCMR.

3. Future Payments: As of February 18, 2003, I have asked DNR to suspend any further payment to MWA pending further review of the special report findings.

4. Advances: Advances of state money are allowed only if certain criteria are met pursuant to a policy developed by the LCMR. The LCMR has found that operating on a reimbursement basis achieves better accountability.

In closing, I wish to state that the staff at the DNR has kept the LCMR staff fully informed on any fiscal issues as they have arisen and have worked with us to clarify contracting and reimbursement procedures.

Sincerely,

/s/ John Velin

John Velin, LCMR Director

Cc: Marla Conroy, Director of Investigations, Office of the Legislative Auditor

Senators: Ellen Anderson, Richard Cohen, Dennis Frederickson,
Linda Higgins, John Marty, James Metzen, Dallas Sams, Jim Vickerman.

Representatives: Dennis Ozment, Chair; Irv Anderson, Ron Erhardt,
Tom Hackbarth, Jim Knoblach, Mark Olson, Howard Swenson, Kathy Tingelstad.