



Program Evaluation and Audit

Community Development

Regional Parks Grants Review

5 February 2008

INTRODUCTION

Background

The Metropolitan Council (Council) provides grants to ten Regional Park Implementing Agencies (RPIAs) within the seven county metropolitan area to partially finance the operations and maintenance of the Metropolitan Regional Park System. These grants are determined by applying the following statutory formula: 20% based upon acreage with natural resource lands in park reserves reduced by one-fourth, 40% based upon number of visits and 40% based upon operation and maintenance (O&M) expenditures from the previous calendar year.

The RPIAs operate and maintain Regional Parks, Regional Trails, Park Reserves and Special Recreation Features. Regional Parks contain outdoor recreational facilities, some of which are child play areas, swimming beaches and boating facilities. Regional Trails are just that, trails that are used for walking, running, biking, and cross country skiing that link parks and park reserves or provide a trail experience unto themselves. Park Reserves are areas set aside 80% of their land base in their natural state and include outdoor recreational facilities. Special Recreation Features include unique outdoor recreation destinations including Como Park Zoo and Conservatory, Gale Woods Farm, Noerenberg Gardens, Square Lake and Silverwood.

Acreage is self reported by the RPIAs; however, the Community Development division of the Council is in the process of verifying the RPIA reported acreage to its geographic information system (GIS). Therefore, there was no need to audit that portion of the grant allocation formula.

Park visits are determined using RPIA employees on randomly selected days and time periods. They count anyone entering the park or trail at a specified entrance point. A system of random counts collected and averaged over a four-year period is used to determine total park visits for each park system unit managed by the RPIA. Visits are counted on weekdays and weekends during the summer and, based upon a 1998 study of weekdays, weekend and seasonal visits, summer data is adjusted to determine annual visits. The most recent summer visitor counts were taken in July 2007. Community Development has allocated resources to update the weekend and seasonal visit ratios in 2008.

There has been no review of O&M expenditures by the RPIAs since this allocation formula was enacted by the Minnesota Legislature in 1985 (*Minn.Stat.* §473.351). The O&M expenditure data is self-reported by the RPIAs. In addition, there is no standard set of data reported by all RPIAs. Program Evaluation & Audit (Audit) was asked by Community Development to review the O&M data reported by the RPIAs on the “2006-2008 Operations and Maintenance Expenditures Report” (Report) and to recommend a standard reporting format so that Community Development can evaluate the reported data in a consistent manner. There are ten RPIAs, eight of which have both local parks not funded with regional monies, and regional parks for which O&M expenses must be allocated.

Assurances

This review was conducted in conformance with Government Auditing Standards and the *Standards for the Professional Practice of Internal Auditing* of the Institute of Internal Auditors. Findings are reported to auditee senior management, the Regional Administrator and the Audit Committee of the Council.

Purpose

This review was conducted to assure that Regional Park Implementing Agencies appropriately account for, allocate and report O&M expenses to the Council, and to suggest a recommended format for consistent reporting of expenditures by the RPIAs.

Scope

The scope of this review was data presented in the *2006-2008 Operations and Maintenance Expenditures Report* by the ten RPIAs. The review did not examine the other statutory components of the funding formula, number of visits and acreage.

Methodology

To gain an understanding of RPIA O&M accounting, allocation and reporting practices, the following methods of inquiry were used:

- CD and RPIA personnel were interviewed.
- RPIA 2006 Comprehensive Annual Financial Reports were reviewed.
- RPIA allocation assumptions were analyzed.
- RPIA O&M reporting practices and reports were reviewed.
- RPIA O&M expense detail was analyzed.

OBSERVATIONS

Operations and maintenance expenditures totaling \$80,326,028 were reported by the RPIAs to the Council for 2006. They are listed at Appendix A. These O&M expenditures, together with 2006 visitor and 2007 acreage data, form the basis upon which the 40/40/20 allocation of \$8,620,000 in grant funds is made. Once allocated, these funds are disbursed monthly to the RPIAs during the period July 1, 2007 – June 30, 2008.

Upon reviewing the O&M accounting, allocating and reporting processes of the ten RPIAs, it was evident that additional guidance would be needed to affect more consistent reporting across all RPIAs. A revised O&M Expenditure Report (Appendix B) and a supplementary Detailed O&M Expenditure Report (Appendix C) plus clarification of reporting Rules (Appendix D) are attached for that purpose.

As detailed in Appendix D, Operations and Maintenance expenditures *include those direct expenses of providing for the operation and maintenance of the waters, lands and facilities that are a part of the metropolitan area regional park and open space system, and the allocation of appropriate indirect overhead expenses that can be shown to have a causal/beneficial relationship to such O&M expenditures.*

Our findings as to allowable and unallowable O&M expenditures are as follows:

Financial Reporting Systems

Three RPIA financial reporting systems did not allow for allocating expenses; one was unable to separate expenses, the other two record keeping systems were not efficient enough to allocate them. A fourth RPIA did not separate regional from local park expenditures.

One RPIA under reported O&M expenditures due to a clerical error, and another under reported by not including central service and other regional parks-related expenses. In addition, for six of the RPIAs, Audit could not reconcile the reported O&M expenditures to the audited financial statements. Finally, one RPIA expense reporting system lags a year behind, i.e., the 2006 reported O&M expenditures were actually for 2005.

Expense Allocation

Eight of the ten RPIAs operated and maintained county/city parks in addition to regional parks. Expenses common to all parks would have to be allocated to county/city and regional parks using an appropriate measure that results in a fair distribution of costs. In addition, general and administrative overhead expenses are incurred for all 10 RPIAs that would again require a fair allocation of expenses to the various departments within the RPIA. Five of the eight RPIAs requiring allocations between county/city and regional parks could not provide documentation supporting some or all of the allocation percentages used. Three of these were using the same allocation percentages that were developed for the initial submission when the program began in 1986.

Allocation of overhead expenses varied among the RPIAs. One did not allocate any overhead or supporting services to its direct O&M expenditures. Two RPIAs used actual data from previous years and applied inflation factors to determine 2006 “actual”

expenditures. Two RPIAs used “best guesses” for developing allocation percentages, while one had a very thorough system of allocating most central services yet still used rough estimates for some of its allocations.

Individual Expenses

The following individual expenses were found to have been included in the RPIA 2006 O&M Reports submitted to the Council. None of these expenses fall within the definition of “O&M” expenses.

Capital Assets

As stated in the 2006 rules for determining O&M expenses, development, stewardship and land acquisition costs are not O&M costs and therefore, should not be included in the O&M expenditures reported to the Council. Of the ten RPIAs that submitted Reports to the Council, seven included development and four included land acquisition and stewardship costs; although one RPIA then reduced its reported expenditures by an estimate of stewardship costs it initially included. In addition, eight of the ten RPIAs included equipment, vehicle or other capital outlays, the costs of which should be recouped through depreciation.

Enterprise Expenses

Items such as clothing, food and beverages and merchandise for resale are expenses generally offset by revenue when such items are sold and would be more appropriately included in an enterprise operation expense. They do not meet the definition of O&M expenses. Five of the RPIAs included enterprise expenses in their Reports.

Lobbying, Contingency and Debt Reduction Expenses

Three RPIAs were known to incur lobbying expenses. It was clear from the data reviewed that one of these included such expenses in the Report. It is unclear if the other two did likewise. Two RPIAs included contingencies in their Reports and another included debt reduction costs. None of these is a cost of operations and maintenance.

CONCLUSIONS

1. *Financial reporting systems vary among RPIAs, resulting in inconsistent reporting of O&M expenditures.*

A series of inconsistencies was found during our review of the financial data reported by the RPIAs. Three RPIA financial reporting systems did not allow for allocating expenses; one was unable to separate expenses, the other two record keeping systems were not efficient enough to allocate them. A fourth RPIA did not separate local from regional expenses. One RPIA under reported O&M expenditures due to a clerical error and another RPIA under reported due to not including central service and other department regional parks related expenses. In addition, Audit could not reconcile the reported O&M expenditures to the audited financial statements of six RPIAs. Finally, one RPIA expense reporting system lags a year behind, i.e., the 2006 reported O&M expenditures were actually for 2005.

2. *Indirect overhead allocation methods and the allocation of expenditures between regional and local parks is not uniform among the RPIAs.*

Eight of the ten RPIAs operate and maintain county/city parks in addition to regional parks. Five of the eight RPIA requiring allocations between county/city and regional parks could not provide documentation supporting some or all of the allocation percentages used. Three of these used the same allocation percentages that were developed for the initial submission when the program began in 1986. Regarding allocation of indirect overhead expenses, one RPIA did not allocate any overhead or supporting services to its direct O&M expenditures and two used actual data from previous years and applied inflation factors to determine 2006 “actual” expenditures.

3. *The definition of O&M expenses provided by the Council is not uniformly interpreted by the ten RPIAs. As a result, some include expenses outside the definition and others do not include some expenses that are rightly classified as O&M expenditures.*

One RPIA included debt reduction costs, another included contingent expenses and three were known to incur lobbying expenses. It was clear from the data reviewed that at least one of these included the lobbying expenses in the Report. It is unclear if the other two did likewise. One RPIA did not include other departments or administrative costs in its Report.

4. *Some enterprise operation expenses including items purchased for resale that are normally accounted for in separate funds were reported as O&M expenditures.*

Items such as clothing, food and beverages and merchandise for resale are expenses generally offset by revenue when such items are sold and would be more appropriately classified as an enterprise operation expense. Such expenses do not meet the definition of O&M expenses. Five RPIAs included such enterprise expenses in their Reports.

RECOMMENDATIONS

Program Evaluation and Audit recommendations are categorized according to the level of risk they pose for the Council. The categories are:

- **Essential** – Steps must be taken to avoid the emergence of critical risks to the Council or to add great value to the Council and its programs. Essential recommendations are tracked through the Audit Database and status is reported twice annually to the Council’s Audit Committee.
- **Significant** – Adds value to programs or initiatives of the Council, but is not necessary to avoid major control risks or other critical risk exposures. Significant recommendations are also tracked with status reports to the Council’s Audit Committee.
- **Considerations** – Recommendation would be beneficial, but may be subject to being set aside in favor of higher priority activities for the Council, or may require collaboration with another program area or division. Considerations are not tracked or reported. Their implementation is solely at the hands of management.
- **Verbal Recommendation** – An issue was found that bears mentioning, but is not sufficient to constitute a control risk or other repercussions to warrant inclusion in the written report. Verbal recommendations are documented in the file, but are not tracked or reported regularly.

1. (Essential) Community Development should revise its O&M expenditure report form and its expenditure reporting rules to give RPIAs a better understanding of reportable expenditures.

The current Report form and “Rules” do not provide sufficient detailed guidance to the RPIAs to submit data reconciled to audited financial statements and in sufficient detail so that Community Development understands the nature of expenses and allocation methods used to arrive at the total O&M expenditures reported to the Council. Audit’s recommended changes are shown as italicized and bolded text in Appendix D.

***Management Response:** Management agrees that clarification of existing practice and implementation of uniform guidelines are important outcomes of this review. Management acknowledges the helpful and cooperative spirit of the Regional Park Implementing Agencies in participating in this review, and the desirability of maintaining open and positive communication between the agencies and the Council. Council staff will advise Regional Park Implementing Agencies to develop consistent regional/local allocations as outlined in Appendix D and to include only expressly authorized operations and maintenance expenditures.*

*Staff responsible: Ann Beckman; Arne Stefferud; Jan Youngquist
Timetable: Immediately*

2. (Essential) Community Development should review the annual O&M expenditure report submissions to assure that sufficient expense detail is submitted and that there is consistent and appropriate application of the “Operation and Maintenance Expenditure Reporting Rules.”

The supporting detail currently submitted by the RPIAs with the Report is insufficient for Community Development to assess if the O&M expenditures reported are appropriate considering the “Operation & Maintenance Expenditure Reporting Rules.” In addition, upon request, the data submitted by the RPIAs varies greatly with some including expenditures that are not allowed, others not including expenditures that are allowed, and inconsistent allocation of service center and indirect overhead expenses to regional and local parks.

Management Response: *Council staff will work with Audit personnel to assure sufficient and consistent detail to justify operating and maintenance expenditures.*

Staff responsible: Ann Beckman; Arne Stefferud; Jan Youngquist
Timetable: Immediately

3. (Significant) Community Development should conduct periodic audits of O&M expenditures reported to the Council.

The grants program for disbursing State funds that partially finance operations and maintenance of the Metropolitan Regional Park and Open Space System has been in existence since 1985. The current audit represents the first time that O&M expenditures have been audited. In addition to identifying reporting inconsistencies, periodic RPIA auditing provides the encouragement for the RPIAs to initiate effective and efficient internal O&M classification, collecting and reporting processes such as developing and updating allocation percentages.

Management Response: *Management agrees that periodic and consistent review is necessary to maintain the integrity of this program. Council staff will ask for a review of parks operating and maintenance expenses every 3 years.*

Staff responsible: Ann Beckman; Arne Stefferud; Jan Youngquist
Timetable: 2011 and as appropriate afterwards.

4. (Consideration) Community Development should consider scheduling a training seminar for the RPIAs to review the reporting process and to update the RPIAs on any changes to the O&M reporting system.

Consistent reporting among the RPIAs is important for a fair allocation of regional park operations and maintenance grant funds. To affect consistent reporting, all RPIAs need to know the current rules and required reporting format. Therefore, when changes occur, Community Development should consider providing information regarding those changes to the RPIAs at a common venue.

Management Response: *Management agrees that meetings, every six months, with Regional Park Implementing Agencies will be instituted to review operating and maintenance expenditure reporting issues, and other issues and concerns.*

Staff responsible: Ann Beckman; Arne Stefferud; Jan Youngquist
Timetable: Immediately

**Metropolitan Regional Parks and Open Space System
2006 Regional Park Agency O&M Expenditures
Appendix A**

Park Agency	2006 O&M Expense	% of Total Expense	Actual O&M Allocation	% of Total Allocation	Allocate % of Expense
Anoka County	\$5,827,824	7.26%	\$809,724	9.39%	13.89%
City of Bloomington	\$737,192	0.92%	\$95,792	1.11%	12.99%
Carver County	\$802,432	1.00%	\$90,045	1.04%	11.22%
Dakota County	\$5,203,145	6.48%	\$475,618	5.52%	9.14%
Minneapolis Park & Recreation Board	\$15,150,616	18.86%	\$2,230,750	25.88%	14.72%
Ramsey County	\$5,072,094	6.31%	\$740,462	8.59%	14.60%
City of St. Paul	\$17,522,771	21.81%	\$1,492,681	17.32%	8.52%
Scott County	\$811,484	1.01%	\$80,644	0.94%	9.94%
Three Rivers Park District - Hennepin County	\$25,604,186	31.88%	\$2,103,864	24.41%	8.22%
Three Rivers Park District - Scott County	\$1,251,494	1.56%	\$174,003	2.02%	13.90%
Washington County	\$2,342,790	2.92%	\$326,417	3.79%	13.93%
	\$80,326,028	100.00%	\$8,620,000	100.00%	10.73%

**Metropolitan Regional Parks and Open Space System
2006 Operations and Maintenance Expenditures Report
Appendix B**

1. Please read the attached "Operations & Maintenance Expenditure Reporting Rules" and review the attached suggested "Detailed O&M Expenditure Report." Then complete this form and return it and the attached "Detailed O&M Expenditure Report" (or your own similar report) along with the documentation stated in Section 7 of the attached "Operations & Maintenance Expenditure Reporting Rules" by 4:30 p.m. Wednesday, **May 23, 2007** to Arne Stefferud.

You can send it as an attachment to an e-mail to: arne.stefferud@metc.state.mn.us

Or, you can send it as a FAX to Arne Stefferud, FAX 651-602-1674

2. Please mail a hard copy with an original signature for the Metropolitan Council's records. Send the hard copy to:

Arne Stefferud
Metropolitan Council
390 North Robert Street
St. Paul, MN 55101

Regional Park Agency Name: _____

<u>Year</u>	<u>Regional Parks Operations and Maintenance Expenditures</u>
Calendar Year 2006 Actual Expenditures for Operations & Maintenance (Please see the attached "Operations & Maintenance Expenditure Reporting Rules" for more information. A suggested reporting format is also attached):	(Please report <u>actual dollars</u> expended--don't round to nearest thousand or nearest hundred)
_____	_____

Calendar Year 2008 Budgeted: _____

Calendar Year 2009 Projected: _____

Name of Respondent: _____

Date of Submittal: _____

Signature of Respondent: _____

Phone Number of Respondent: _____

**Metropolitan Regional Parks and Open Space System
Detailed O&M Expenditure Report
Appendix C**

Expenditures

Expense Account #	Expense Account Description	Total Expenditures	Regional Parks Allocation %	Allocation Basis	Regional Parks Expenditures	Financial Stmt Page # Ref
<u>Direct Expenses</u>						
Subtotal Direct Expenses		_____			_____	
<u>Indirect Overhead Expenses</u>						
Subtotal Indirect Overhead Expenses		_____			_____	
Total Expenses		=====			=====	

**Metropolitan Regional Parks and Open Space System
Operation & Maintenance Expenditure Reporting Rules
Appendix D**

1. Operation and maintenance (O&M) expenditures include those direct expenses of providing for the operation and maintenance of the waters, lands and facilities that are a part of the Metropolitan Regional Parks and Open Space System, and the allocation of appropriate indirect overhead expenses that can be shown to have a casual/beneficial relationship to such direct O&M expenditures. Some indirect overhead expenses of a Regional Park Implementing Agency (RPIA) may be allocable to O&M expenditures (i.e. Board and executive management, computing, human resources, accounting), whereas other indirect expenses may not (i.e. legislative services, lobbying, contingencies, debt reduction).

2. A rule of thumb is--if the Metropolitan Council (Council) will fund the **acquisition, stewardship and/or** development of a facility, then you should include its O&M expenditures. Examples of such expenditures are administrative, planning, maintenance, programming and diseased tree control on regional park system lands. **Expenditures to acquire, steward and develop (see definitions below) regional park land and facilities are not O&M expenditures and should not be included.**

3. **If you have non-regional park units, it is preferable to account for those costs separately from regional park units and to pro-rate your general and administrative costs accordingly. Please provide the rationale and calculations to support such cost allocations.**

4. Include the costs of O&M services defined above that are provided to your park agency by other agencies or departments. For example, the Public Works Department may plow all park roads and bill your park agency for that service. Please pro-rate those costs to the regional park system units you manage when that service is also done for non-regional park units. **Please provide the rationale and calculations to support such pro-rated costs.**

5. The following expenditures do not fall within the definition of direct O&M expenditures or applicable indirect overhead costs and are not to be included as direct or allocated as indirect expenditures in the annual “Regional Parks Operations and Maintenance Expenditures” report (Report) submitted to the Council:

- Enterprise Costs - Costs to operate and maintain facilities such as golf courses, marinas, downhill ski or ski jump areas, **snack bars, gift shops or similar commercial operations, including the cost of items purchased for resale.**

- Development Costs – Costs related to new construction of specific recreation facilities or natural resource restoration, as well as major reconstruction or rehabilitation of existing facilities that have become due to age and routine wear unable to perform the functions for which they were intended. This includes design and engineering fees and the costs for tests, working drawings, construction and construction management. These costs are development grant eligible and therefore should not be reported as O&M expenditures or be included in future year O&M budgets.

- **Land** Acquisition Costs – Costs related to the actual purchase of property, including appraisals, legal fees, land costs, relocation expenditures, tax equivalency payments and

Metropolitan Regional Parks and Open Space System Operation & Maintenance Expenditure Reporting Rules Appendix D

assessments. These costs are land acquisition grant eligible and therefore should not be reported as O&M expenditures or be included in future year O&M budgets.

● Stewardship Costs - Costs related to protecting purchased land until park development occurs, including razing existing structures, erosion control, capping abandoned wells, fencing and posting. These costs are land acquisition grant eligible and therefore should not be reported as O&M expenditures or be included in future year O&M budgets.

- Contingencies or inflation factors
- *Debt Service, including payment of both principle and interest*
- *Capital Outlays (this expenditure shall be recouped through depreciation)*
- *Lobbying Expenditures*
- *Legislative Services*
- *Entertainment Costs*
- *Travel Costs except for reimbursable local mileage*
- *Fines and Penalties*

6. Because of their nature, timing and difficulty in classification, development, stewardship and land acquisition costs can easily be incorrectly classified. It is recommended that each such project be accounted for separately and in those instances in which such costs were found to have been included in prior years' expenditures they are to be credited in the current year Report.

7. In order to facilitate an equitable allocation of available regional park grant funds, each RPIA will provide the following information to the Council with the Report. Failure to do so may reduce the grant funds awarded to such RPIA.

- a. A chart of accounts to include expense account number and description.***
- b. Audited financial statements covering the same period as the Report.***
- c. A listing, by account number, of direct O&M expenses reported to the Council.***

This need not list each individual expense; a total by expense account number is sufficient. However, it does include those expenses transferred to or from another fund or operating unit and those that are allocated among regional parks, local parks and other funds/operating units. For such transfers and allocations, provide the following information:

(1) The fund/operating unit to which or from which the expense is transferred/allocated.

(2) The rationale for the transfer/allocation and description of the transfer/allocation process.

(3) Back-up documentation supporting transfer/allocation percentages.

d. A listing, by account number, of indirect (overhead) expenses reported to the Council as O&M expenditures. The same guidelines and documentation requirements stated in Section 7.c, above, also apply to these expenses.

**Metropolitan Regional Parks and Open Space System
Operation & Maintenance Expenditure Reporting Rules
Appendix D**

e. A reconciliation of O&M expenditures reported herein to the appropriate Fund data in the audited financial statements.

8. For **2009 projections**, estimate additional O&M costs if new facilities come "on line" in **2008**. For example, additional staff needed for the "new" park to be "on line" in **2009**.