DEPARTMENT OF NATURAL RESOURCES

Memo

Date: 7/21/25
To: Mark Johnson, LSOHC executive director
From: Kelly Wilder, DNR liaison to the LSOHC
Cc: Bob Meier, DNR assistant commissioner
DNR Office of Management and Budget Services
DNR Fish and Wildlife, Forestry, and Ecological and Water Resources accounting directors

RE: OHF expenditures response

In response to an OHF-funded project that made two expenditures without first seeking required amendments, the DNR has convened staff to determine where breakdowns occurred and to identify how they can be avoided in the future. The following next steps are expanded upon in later sections of the memo:

1. DNR will explore broader use of dedicated accounts
2. DNR will standardize its program manager onboarding and training

Summary of issues

In June 2025, DNR met with LSOHC staff to discuss two expenditures that were made without first seeking required amendments, using ML2019 Forests for the Future Phase VII funds:

- An acquisition was made six months beyond the allowable deadline. This appropriation had both a previous extension and restoration funding so there were several deadlines to track. Confusion about expiration dates led to the acquisition occurring beyond the acquisition deadline.
- The professional services line item was spent beyond the 10% overage allowed without an approved amendment. There were substantial savings in the contracts and personnel lines, and staff reported the overspending in multiple status reports. However, staff overlooked the requirement to seek an amendment.

Current oversight

For context, it is valuable to understand that DNR does have a robust system of checks and balances around OHF and other funding sources. We very rarely encounter these types of issues across our complex revenue and spending landscape.

As LSOHC is aware, DNR's Office of Grants Management administers partner awards. DNR's direct appropriations have analogous controls to those administered by OGM in the following functions:

- Accounts payable
- Internal controls
- Land acquisition requirements (appropriations, etc.)
- Purchasing
- Payroll and time-charging
- Budget controls

The controls above ensure that work was correctly ordered and completed before DNR pays for it. DNR direct appropriations also have required reporting to ensure we know what activities fall under which projects.

The control DNR direct appropriations do not have is an outside body reviewing payments against the accomplishment plan before releasing funding, which would have flagged the issues at hand before they occurred.

Next steps

DNR has identified that the following next steps will help to ensure we avoid these types of issues in the future. The next steps will be implemented by the end of 2025, and the DNR would be happy to report back to Council staff and/or members at that point with more details.

1. Explore broader use of dedicated accounts

One immediate best practice that DNR will explore implementing more broadly across the department involves splitting appropriations into separate sub-accounts. This allows tracking spending more easily and prevents overspending within a budget category without action on the program manager's part. Some program managers already use this practice, separating out key line items such as professional services, acquisition, IDP, etc. Accounting directors in the Fish and Wildlife, Forestry, and Ecological and Water Resources divisions will be meeting to discuss implementation of this best practice.

Related to the use of dedicated accounts, program managers have various budget tools and regular reports provided to them by division fiscal staff. These tools display amounts budgeted, encumbered (obligated), expended, and remaining (at the overall appropriation and sub-account levels). While it is not possible to "turn off" dollars aligned with the multiple LSOHC deadlines (i.e., for acquisition, R/E of acquired lands, R/E of other lands, availability of federal funds), it is a best practice for program managers to add these deadlines to the documents provided to them by fiscal staff. This practice will be covered in the training further explained below.

2. Standardize DNR program manager onboarding and training

DNR, along with its agency and NGO partners who also receive OHF awards, now has a long and successful history of stewarding these funds. A lot goes right with how we ensure effectiveness and compliance: program managers collaborate with their colleagues who are subject matter experts across various divisions; are supported by division and department level staff who are specialists in fiscal, legal, and other matters; receive guidance from DNR leadership; and receive guidance from the DNR liaison to the LSOHC. While this ecosystem generally does a good job of orienting program managers, DNR has identified two areas where we can bring

greater consistency: (a) with an update to our operational order guidance and (b) through an annual training and establishment of a community of practice.

(a) Operational order guidance

The DNR uses a system of operational orders to define policies and procedures concerning the internal management of the department. Operational Order 126 (Funding Framework for Constitutionally Dedicated Funds) and its associated "OHF operational guidelines for implementation" describe the expectations for applying for and managing OHF funds. These documents were last updated in 2013 and 2015 respectively, and while much of their content is still up to date, some of the documentation does need to be updated. The guidance outlines detailed program manager responsibilities, including knowing where to find and understanding all spending procedures, restrictions, and deadlines. The guidance also includes numerous best practices for program managers. The DNR will be prioritizing updating this guidance, which will include flagging or highlighting key information to make it easier to find, and clarifying or expanding upon expectations as needed.

(b) Annual training and community of practice

Program managers have historically been onboarded and trained effectively, although fairly informally, and sometimes somewhat siloed within divisions. It would be wise to have a department-level annual training for OHF program managers, to review the operational order guidance, orient to LSOHC's online portal and web resources, and ensure staff know what resources are available to them for additional support. This training will occur annually, and it will be recorded so that new program managers can immediately get up-to-speed (including when there is a transition in staff midstream of a program).

While program managers and their colleagues collaborate closely and frequently, there is not a cohesive way to communicate among all staff with OHF ties. Microsoft Teams offers an opportunity to create a Teams-based "OHF community of practice." This will allow program managers, their staff, fiscal/legal/other resource staff, and DNR managers to easily share questions, learnings, common mistakes, etc. It will also be a one-stop shop where the DNR liaison can share the updated operational order guidance, the annual training, and other timely resources.