

FINANCIAL AUDIT
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT
OF THE

DEPARTMENT OF NATURAL RESOURCES

October 1, 1997 through September 30, 1999

EXECUTIVE DIGEST

DEPARTMENT OF NATURAL RESOURCES

INTRODUCTION

This report contains the results of our financial audit*, including the provisions of the Single Audit Act, of the Department of Natural Resources (DNR) for the period October 1, 1997 through September 30, 1999.

AUDIT PURPOSE

This financial audit of DNR was conducted as part of the constitutional responsibility of the Office of the Auditor General and is required on a biennial basis by Act 251, P.A. 1986, to satisfy the requirements of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

BACKGROUND

DNR's mission* is to conserve, protect, and manage the State's natural resources for the use and enjoyment of current and future generations.

DNR, originally established by Act 17, P.A.1921 (Sections 299.1 - 299.6 of the *Michigan Compiled Laws*), was reestablished by Act 451, P.A. 1994 (Sections 324.101 - 324.90106 of the *Michigan Compiled Laws*). DNR operates under the direction of the Natural Resources Commission. The seven members of the Commission are appointed by the Governor, with the advice and consent of the Senate, and serve four-year terms. The Commission

* See glossary at end of report for definition.

appoints the director, who carries out DNR policy and program development under the overall direction of the Commission.

DNR is internally divided into two major program areas: resource management and administrative services. Both of these major program areas participate in managing federal grants. DNR's financial and administrative operations are concentrated under the administrative services program area.

DNR's general operations are accounted for in the State's General Fund. DNR administers 11 conservation and recreation-related special revenue funds and a capital projects fund. As of September 30, 1999, DNR had 1,536 full-time employees, and its General Fund expenditures and operating transfers and special revenue fund expenditures for fiscal year 1998-99 totaled \$251.8 million.

AUDIT OBJECTIVES,
CONCLUSIONS, AND
NOTEWORTHY
ACCOMPLISHMENTS

Audit Objective: To audit DNR's financial statements and schedules, including the schedule of expenditures of federal awards, for the fiscal years ended September 30, 1999 and September 30, 1998.

Conclusion: We expressed an unqualified opinion* on DNR's financial statements and schedules. In addition, we expressed an unqualified opinion on DNR's supplemental financial schedules, including the schedule of expenditures of federal awards, in relation to the financial statements and schedules taken as a whole.

* See glossary at end of report for definition.

Audit Objective: To assess and report on DNR's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial statements and schedules, and on its internal control* over financial reporting, based on our audit of the financial statements and schedules.

Conclusion: Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial statements and schedules. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses*. However, we identified reportable conditions* related to revenue collected at State parks and harbor sites, cash management, and payroll cost distribution (Findings 1 through 3).

In addition, our assessment indicated that DNR was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.

Audit Objective: To assess and report on DNR's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with OMB Circular A-133.

Conclusion: Our assessment of compliance applicable to each major federal program disclosed instances of noncompliance related to federal

* See glossary at end of report for definition.

financial reporting, terminal leave payments charged to federal grants, subrecipient* monitoring, and post-completion inspections that are required to be reported under OMB Circular A-133 (Findings 4 through 7). However, our assessment of internal control over compliance applicable to each major federal program did not disclose any material weaknesses. We did identify reportable conditions related to federal financial reporting, terminal leave payments charged to federal grants, subrecipient monitoring, and post-completion inspections (Findings 4 through 7).

Noteworthy Accomplishment: DNR has made considerable improvement in federal grant accounting and financial reporting since our prior audit fieldwork. DNR has established controls that address the numerous errors and unexplained differences noted in the prior audit. These controls now include reconciliation of federal grant expenditures with the State's accounting system, and new procedures are being used to monitor costs for eligibility. This has resulted in a decrease in the number of audit issues and the dollars of questioned costs.

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Department of Natural Resources for the period October 1, 1997 through September 30, 1999. Our audit was conducted in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and,

* See glossary at end of report for definition.

accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

**AGENCY RESPONSES
AND PRIOR AUDIT
FOLLOW-UP**

Our audit report contains 7 findings and 9 corresponding recommendations. DNR's corrective action plan indicates that DNR agrees with all the recommendations and that it has complied or will comply with them.

As disclosed in DNR's summary schedule of prior audit findings, DNR complied with 5 of the 8 prior Single Audit* recommendations related to the 6 prior audit findings. One of the prior audit recommendations was substantially rewritten for inclusion in this report (see Finding 6). The other 2 prior audit recommendations are repeated in this report (see Findings 1 and 7).

* See glossary at end of report for definition.

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November 28, 2000

Mr. Keith J. Charters, Chairperson
Natural Resources Commission
and
Mr. K.L. Cool, Director
Department of Natural Resources
Stevens T. Mason Building
Lansing, Michigan

Dear Mr. Charters and Mr. Cool:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Natural Resources for the period October 1, 1997 through September 30, 1999.

This report contains our executive digest; description of agency; audit objectives, conclusions, and noteworthy accomplishments, audit scope, and agency responses and prior audit follow-up; schedule of findings and questioned costs; and independent auditor's reports on the financial statements, on the financial schedules, on compliance and on internal control over financial reporting, and on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133. This report also contains the Department of Natural Resources financial statements and schedules and notes to the financial statements and schedules, supplemental financial statements and schedules, other schedules, and a glossary of acronyms and terms.

Our findings and recommendations are organized by audit objective. The agency preliminary responses are contained in the corrective action plan. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

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Description of Agency

The Department of Natural Resources' (DNR's) mission is to conserve, protect, and manage the State's natural resources for the use and enjoyment of current and future generations.

DNR, originally established by Act 17, P.A. 1921 (Sections 299.1 - 299.6 of the *Michigan Compiled Laws*), was reestablished by Act 451, P.A. 1994 (Sections 324.101 - 324.90106 of the *Michigan Compiled Laws*). DNR operates under the direction of the Natural Resources Commission. The seven members of the Commission are appointed by the Governor, with the advice and consent of the Senate, and serve four-year terms. The Commission appoints the director, who carries out DNR policy and program development under the overall direction of the Commission.

DNR is internally divided into two major program areas: resource management and administrative services. Both of these major program areas participate in managing federal grants. Each program area is headed by a deputy director. Under the deputy directors, 13 divisions and offices carry out DNR's activities.

DNR's financial and administrative operations are concentrated under the administrative services program area. Various administrative and general support functions, such as budget development and control, accounting, grants management, personnel, computer support, purchasing, business systems, and Statewide operations, are conducted under this program area.

DNR's general operations are accounted for in the State's General Fund. DNR administers 11 conservation and recreation-related special revenue funds and a capital projects fund. As of September 30, 1999, DNR had 1,536 full-time employees, and its General Fund expenditures and operating transfers and special revenue fund expenditures for fiscal year 1998-99 totaled \$251.8 million.

Audit Objectives, Conclusions, and Noteworthy Accomplishments,
Audit Scope, and Agency Responses and Prior Audit Follow-Up

Audit Objectives, Conclusions, and Noteworthy Accomplishments

Our financial audit, including the provisions of the Single Audit Act, of the Department of Natural Resources (DNR) had the following objectives:

1. To audit DNR's financial statements and schedules, including the schedule of expenditures of federal awards, for the fiscal years ended September 30, 1999 and September 30, 1998.

We expressed an unqualified opinion on DNR's financial statements and schedules. In addition, we expressed an unqualified opinion on DNR's supplemental financial schedules, including the schedule of expenditures of federal awards, in relation to the financial statements and schedules taken as a whole.

2. To assess and report on DNR's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial statements and schedules, and on its internal control over financial reporting, based on our audit of the financial statements and schedules.

Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial statements and schedules. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses. However, we identified reportable conditions related to revenue collected at State parks and harbor sites, cash management, and payroll cost distribution (Findings 1 through 3).

In addition, our assessment indicated that DNR was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.

The findings related to our assessment of compliance and internal control over financial reporting are contained in Section II of the schedule of findings and questioned costs*.

3. To assess and report on DNR's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.

Our assessment of compliance applicable to each major federal program disclosed instances of noncompliance related to federal financial reporting, terminal leave payments charged to federal grants, subrecipient monitoring, and post-completion inspections that are required to be reported under OMB Circular A-133 (Findings 4 through 7). However, our assessment of internal control over compliance applicable to each major federal program did not disclose any material weaknesses. We did identify reportable conditions related to federal financial reporting, terminal leave payments charged to federal grants, subrecipient monitoring, and post-completion inspections (Findings 4 through 7).

DNR has made considerable improvement in federal grant accounting and financial reporting since our prior audit fieldwork. DNR has established controls that address the numerous errors and unexplained differences noted in the prior audit. These controls now include reconciliation of federal grant expenditures with the State's accounting system, and new procedures are being used to monitor costs for eligibility. This has resulted in a decrease in the number of audit issues and the dollars of questioned costs.

The findings related to our assessment of compliance and internal control over compliance applicable to each major federal program are contained in Section III of the schedule of findings and questioned costs.

Audit Scope

Our audit scope was to examine the financial and other records of the Department of Natural Resources for the period October 1, 1997 through September 30, 1999. Our

* See glossary at end of report for definition.

audit was conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

We considered DNR's internal control over compliance applicable to each major federal program and assessed DNR's compliance with federal laws and regulations in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, in addition to generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. In addition, we followed up on DNR's summary schedule of prior audit findings. DNR's major federal programs are identified in Section I of the schedule of findings and questioned costs.

Agency Responses and Prior Audit Follow-Up

Our audit report contains 7 findings and 9 corresponding recommendations. DNR's corrective action plan indicates that DNR agrees with all the recommendations and that it has complied or will comply with them.

DNR's corrective action plan, which is included in this report, was prepared by DNR as required by OMB Circular A-133. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require DNR to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

As disclosed in DNR's summary schedule of prior audit findings, DNR complied with 5 of the 8 prior Single Audit recommendations related to the 6 prior audit findings. One of the prior audit recommendations was substantially rewritten for inclusion in this report (see Finding 6). The other 2 prior audit recommendations are repeated in this report (see Findings 1 and 7).

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Statements and Schedules

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? No

Reportable conditions identified that are not considered to be material weaknesses? Yes

Noncompliance material to the financial statements or schedules? No

Federal Awards

Internal control over major programs:

Material weaknesses identified? No

Reportable conditions identified that are not considered to be material weaknesses? Yes

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, Section 510(a)? Yes

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
10.664	Cooperative Forestry Assistance
10.665	Schools and Roads - Grants to States
15.605	Sport Fish Restoration
15.611	Wildlife Restoration
20.005	Boating Safety Financial Assistance

Dollar threshold used to distinguish between type A and type B programs: \$1,403,638

Auditee qualified as a low-risk auditee*? No

Section II: Findings Related to the Financial Statements and Schedules

FINDING (750001)

1. Revenue Collected at State Parks and Harbor Sites

The Department of Natural Resources (DNR) did not maintain proper internal control over State park motor vehicle permits. Also, DNR did not reconcile revenue collected at State parks and harbor sites with the State accounting records.

Section 18.1485(2)(c) of the *Michigan Compiled Laws* states that each internal accounting and administrative control system shall include a system of authorization and recordkeeping procedures to control assets, liabilities, revenues, and expenditures.

* See glossary at end of report for definition.

Revenue from sales of motor vehicle permits at State parks totaled \$10.4 million for fiscal year 1998-99 and \$10.5 million for fiscal year 1997-98. State parks and harbor sites also collect revenue from other sources, including camping fees, boating access permits, concessions, and marine fuel sales. Revenue from these other sources totaled \$11.3 million for fiscal year 1998-99 and \$11.6 million for fiscal year 1997-98.

DNR's procedures did not ensure that all revenue received at the 96 State parks and 7 harbor sites had been properly deposited and recorded in the State accounting records. Our review disclosed:

- a. Although DNR maintained a record of permits sent to State parks, it did not reconcile revenue recorded with permits issued, voided, or returned. As a result, DNR had no assurance that all revenue from the sale of motor vehicle permits was received and deposited in the State Park Improvement Fund.

In response to a similar finding in our prior audit report, DNR stated that it had made significant improvements in internal control in fiscal year 1997-98 and would continue to refine this control in fiscal year 1998-99.

- b. The Parks and Recreation Division required State parks and harbor sites to submit weekly remittance reports summarizing all revenue collected. The Division verified that revenue reported on individual weekly remittance reports had been properly deposited and recorded in the State accounting records. However, DNR had not established procedures to reconcile total remittance report revenue balances with the State accounting records.

As of June 2000, DNR had substantially developed an automated system for the revenue reconciliation process and for maintaining controls over motor vehicle permits. DNR staff informed us that a pilot project had been established to implement the system at six State parks.

RECOMMENDATIONS

WE AGAIN RECOMMEND THAT DNR MAINTAIN PROPER INTERNAL CONTROL OVER STATE PARK MOTOR VEHICLE PERMITS.

We also recommend that DNR reconcile revenue collected at State parks and harbor sites with the State accounting records.

FINDING (750002)

2. Cash Management

DNR's internal control did not provide for timely drawdowns of federal funds.

DNR's drawdowns of federal funds that are not subject to the federal Cash Management Improvement Act are to be made in accordance with federal general cash management requirements, Section 18.1395(5) of the *Michigan Compiled Laws*, and Department of Management and Budget Administrative Guide procedure 1210.06. These standards require DNR to use State General Fund/general purpose appropriations only after the available restricted funds have been used. These standards also require DNR to minimize the time elapsing between the transfer of funds from the U.S. Department of Treasury and the payout of funds by the State.

We reviewed the drawdowns of federal funds for fiscal year 1998-99 for 2 grants for the Wildlife Restoration Program and 2 grants for the Sport Fish Restoration Program. Our review disclosed that the first drawdowns for the 2 Wildlife Restoration Program grants were made in April and June 1999, respectively. Our review also disclosed that the first drawdowns for the 2 Sport Fish Restoration Program grants were made in February 1999 for both grants.

We reviewed the expenditures for salaries and wages for these 4 federal grants in fiscal year 1998-99 and the related federal drawdowns. We estimated that the State's interest income would have increased by approximately \$19,000 if DNR had drawn down federal funds on a monthly basis for these costs in fiscal year 1998-99.

RECOMMENDATION

We recommend that DNR enhance its internal control to provide for timely drawdowns of federal funds.

FINDING (750003)

3. Payroll Cost Distribution

DNR did not maintain sufficient documentation to demonstrate that all payroll costs were accurately allocated among the various funds.

We tested payroll cost distributions and noted that DNR had a system that directly charged most payroll and nonpayroll costs to the benefiting funds. However, in some instances, training and administrative costs were allocated based on a predetermined percentage. DNR needs to maintain documentation to support the propriety of these charges to restricted funding sources.

DNR needs this documentation to demonstrate that it used restricted funding sources appropriately. Also, Section 18.1485(2)(c) of the *Michigan Compiled Laws* states that each internal accounting and administrative control system shall include a system of authorization and recordkeeping procedures to control assets, liabilities, revenues, and expenditures.

RECOMMENDATION

We recommend that DNR maintain sufficient documentation to demonstrate that all payroll costs are accurately allocated among the various funds.

The status of the findings reported in the prior Single Audit is disclosed in the summary schedule of prior audit findings.

Section III: Findings and Questioned Costs Related to Federal Awards

FINDING (750004)

4. Federal Financial Reporting

U.S. Department of Agriculture	CFDA: 10.664 Cooperative Forestry Assistance
Award Number: NA-97-0153 NA-98-0392	Award Period: 10/1/96 - 9/30/99 10/1/97 - 9/30/99
	Questioned Costs: \$0

U.S. Department of the Interior	CFDA: 15.605 Sport Fish Restoration
Award Number: F-35-R-24 F-53-R-15	Award Period: 4/1/98 - 3/31/99 4/1/98 - 3/31/99
	Questioned Costs: \$0

U.S. Department of the Interior	CFDA: 15.611 Wildlife Restoration
Award Number: W-127-R-16 W-141-D-1	Award Period: 10/1/97 - 9/30/99 11/25/97 - 9/30/98
	Questioned Costs: \$0

DNR did not ensure that all federal financial status reports were accurately prepared.

For fiscal year 1997-98, DNR did not reconcile the expenditures reported on federal financial status reports with the expenditures recorded in the State accounting records. We noted that reconciliations were completed for fiscal year 1998-99.

DNR is required to submit annual federal financial status reports for its grants within 90 days after fiscal year-end.

We reviewed the financial status reports for fiscal year 1997-98 for 33 federal grants. Our review disclosed that the federal expenditures for 6 grants (identified in the boxes at the beginning of this finding) were understated by a total of \$785,299 on these reports. We determined that the errors resulted because DNR had not accurately accumulated expenditures in the correct fiscal year or had not reported expenditures for the correct federal grant. Our review of 27 financial status reports for fiscal year 1998-99 did not identify any significant reporting errors.

RECOMMENDATION

We recommend that DNR ensure that all federal financial status reports are accurately prepared.

FINDING (750005)

5. Terminal Leave Payments Charged to Federal Grants

U.S. Department of the Interior	CFDA: 15.605 Sport Fish Restoration
Award Number: F-62-D-11 F-53-R-15	Award Period: 10/1/97 - 9/30/98 4/1/98 - 3/31/99
	Questioned Costs: \$12,645

U.S. Department of the Interior	CFDA: 15.611 Wildlife Restoration
Award Number: W-127-R-16 W-141-D-1 W-127-R-17	Award Period: 10/1/97 - 9/30/99 11/25/97 - 9/30/98 10/1/98 - 9/30/99
	Questioned Costs: \$20,529

DNR charged terminal leave payments to federal grants using a direct cost method without the approval of the federal cognizant agency.

DNR charged terminal leave payments to federal grants totaling \$31,587 for fiscal year 1997-98 and \$1,587 for fiscal year 1998-99.

OMB Circular A-87 requires the approval of the federal cognizant agency when using a direct cost method.

A directive issued on July 22, 1997 by the Office of Financial Management, Department of Management and Budget, provides guidance for appropriate allocation of terminal leave payments to federal grant programs. One option is to allocate the costs based on a departmental indirect cost rate that has been negotiated with the cognizant agency. Another option is to allocate directly to the federal grant programs based on a plan that has been reviewed and approved by the cognizant agency. However, DNR staff informed us that they have elected not to charge terminal leave payments to federal grants and that the exceptions noted were the result of noncompliance with DNR policy.

RECOMMENDATION

We recommend that DNR either comply with its policy not to charge terminal leave payments to federal grants or obtain approval from its federal cognizant agency to charge terminal leave payments directly to federal grants.

FINDING (750006)

6. Subrecipient Monitoring

U.S. Department of Agriculture	CFDA: 10.665 Schools and Roads - Grants to States
Award Number: N/A N/A	Award Period: 10/1/97 - 9/30/98 10/1/98 - 9/30/99
	Questioned Costs: \$0

DNR had not established procedures to monitor whether the subrecipients for the Schools and Roads - Grants to States Program complied with federal and State requirements. Also, DNR did not inform subrecipients for the Schools and Roads - Grants to States Program of all federal award information.

OMB Circular A-133 requires DNR to ensure that subrecipients expend federal funds in accordance with applicable laws and regulations. OMB Circular A-133 also requires the pass-through entity to identify the federal awards made by informing each subrecipient of the *Catalog of Federal Domestic Assistance (CFDA)* title and number, award name and number, award year, and name of the federal agency.

Title 16, Section 500 of the *United States Code* provides that funds for the Schools and Roads - Grants to States Program shall be expended as the State prescribes for the benefit of public schools and roads in the counties in which national forests are located. Section 141.1303 of the *Michigan Compiled Laws* provides that counties receiving Schools and Roads - Grants to States Program grants shall distribute 75% of the funds to local school districts for school purposes and 25% of the funds to townships for improvement of county roads within those townships.

DNR receives federal funds for the Schools and Roads - Grants to States Program from timber sales revenue and oil and gas royalties for national forests located in the State. DNR made the following distributions to counties for the Schools and Roads - Grants to States Program:

	Fiscal Year	
	1998-99	1997-98
Timber sales revenue	\$ 2,995,680	\$ 2,759,084
Oil and gas royalties	128,494	331,903
Total distributed	<u>\$ 3,124,174</u>	<u>\$ 3,090,987</u>

Our review disclosed:

- a. DNR required subrecipients to submit financial reports summarizing the distributions of oil and gas royalties to schools and townships. However, DNR had not established any procedures to test the accuracy of these financial reports.
- b. DNR did not require the subrecipients to submit any financial reports summarizing distributions of timber sales revenue and had not established any other means to monitor these subrecipients.
- c. DNR did not inform subrecipients of the *CFDA* title and number and the name of the federal agency for the Schools and Roads - Grants to States Program.

Monitoring of subrecipients is necessary to provide reasonable assurance that Schools and Roads - Grants to States Program funds are expended in accordance with federal and State requirements. To ensure that subrecipients accurately report federal financial assistance in their audit reports, DNR should inform them of all federal award information.

RECOMMENDATIONS

We recommend that DNR establish procedures to monitor whether the subrecipients for the Schools and Roads - Grants to States Program comply with federal and State requirements.

We also recommend that DNR inform subrecipients for the Schools and Roads - Grants to States Program of all federal award information.

FINDING (750007)

7. Post-Completion Inspections

U.S. Department of the Interior	CFDA: 15.916 Outdoor Recreation - Acquisition, Development and Planning
Award Number: 26-0 26-0	Award Period: 10/1/97 - 9/30/98 10/1/98 - 9/30/99
	Questioned Costs: \$0

DNR did not comply with the post-completion inspection requirements of the federal Land and Water Conservation Fund Act of 1965.

DNR's expenditures for the Land and Water Conservation Fund Program totaled \$196,564 for fiscal year 1998-99 and \$596,362 for fiscal year 1997-98.

Chapter 675.1 of the federal Land and Water Conservation Fund Grants Manual requires inspection reports on completed projects to be submitted to the National Park Service of the U.S. Department of Interior every five years. These reports should state whether the properties acquired and/or developed with this assistance are being retained and used for outdoor recreation purposes in accordance with the project agreement and other applicable program requirements.

As of June 5, 2000, National Park Service reports indicated that DNR had a total of 1,234 delinquent post-completion inspections. The National Park Service reports stated that 1,052 of these inspections were delinquent as of December 31, 1997 and an additional 95 of the inspections were delinquent as of December 31, 1998.

DNR completed 74 inspections during fiscal year 1996-97 and 63 inspections during fiscal year 1995-96. DNR did not complete any inspections in fiscal years 1998-99 and 1997-98.

According to the federal Land and Water Conservation Fund Grants Manual, failure to comply with the post-completion inspection provisions shall be considered cause for the director of the National Park Service to withhold future payments to the State on any or all current projects, withhold action on all pending projects of the State, or withhold current or future reimbursements due to the State for assistance previously paid for projects. Failure to comply with post-completion inspection provisions may also result in loss of funds from other federal grants.

In response to a similar finding in our prior audit, DNR stated that it agreed that more post-completion inspections were warranted but that the federal government did not provide funding for post-completion inspections. DNR also stated that it was seeking additional funding for this function.

RECOMMENDATION

WE AGAIN RECOMMEND THAT DNR COMPLY WITH THE POST-COMPLETION INSPECTION REQUIREMENTS OF THE FEDERAL LAND AND WATER CONSERVATION FUND ACT OF 1965.

The status of the findings reported in the prior Single Audit is disclosed in the summary schedule of prior audit findings.

Independent Auditor's Report on
the Financial Statements

June 16, 2000

Mr. Keith J. Charters, Chairperson
Natural Resources Commission
and
Mr. K.L. Cool, Director
Department of Natural Resources
Stevens T. Mason Building
Lansing, Michigan

Dear Mr. Charters and Mr. Cool:

We have audited the accompanying combined balance sheet of the Department of Natural Resources as of September 30, 1999 and September 30, 1998 and the related combined statement of revenues, expenditures, and changes in fund balances for the fiscal years then ended. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1d, the accompanying financial statements include only specific funds administered by the Department of Natural Resources. Accordingly, these financial statements are not intended to present fairly the financial position and results of operations of the Department, the State of Michigan, or the State's special revenue and capital projects funds.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Department of Natural Resources' funds, as listed in Note 1a, as of September 30, 1999 and September 30, 1998 and the results of operations for the fiscal years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2000 on our tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting.

The accompanying supplemental financial statements and schedules, consisting of the combining balance sheet - special revenue funds, the combining statement of revenues, expenditures, and changes in fund balances - special revenue funds, and the schedule of expenditures of federal awards, are presented for purposes of additional analysis and are not a required part of the Department's financial statements referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

AUDITOR GENERAL

Independent Auditor's Report on
the Financial Schedules

June 16, 2000

Mr. Keith J. Charters, Chairperson
Natural Resources Commission
and
Mr. K.L. Cool, Director
Department of Natural Resources
Stevens T. Mason Building
Lansing, Michigan

Dear Mr. Charters and Mr. Cool:

We have audited the accompanying schedule of General Fund revenues and operating transfers and the schedule of sources and disposition of General Fund authorizations of the Department of Natural Resources for the fiscal years ended September 30, 1999 and September 30, 1998. These financial schedules are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial schedules based on our audit. The governmental operations of the Department are accounted for principally in the General Fund of the State of Michigan.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1d, the accompanying financial schedules include only the revenues and operating transfers and the sources and disposition of authorizations for

the Department of Natural Resources' General Fund accounts, presented on the modified accrual basis of accounting. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either the Department or the State's General Fund in accordance with generally accepted accounting principles.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenues and operating transfers and the sources and disposition of authorizations of the Department of Natural Resources for the fiscal years ended September 30, 1999 and September 30, 1998 on the basis of accounting described in Note 1c.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 16, 2000 on our tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting.

The accompanying schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the other supplemental financial schedule, the schedule of certain General Fund assets and liabilities, are presented for purposes of additional analysis and are not a required part of the Department's financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

AUDITOR GENERAL

Independent Auditor's Report on Compliance and
on Internal Control Over Financial Reporting

June 16, 2000

Mr. Keith J. Charters, Chairperson
Natural Resources Commission
and
Mr. K.L. Cool, Director
Department of Natural Resources
Stevens T. Mason Building
Lansing, Michigan

Dear Mr. Charters and Mr. Cool:

We have audited the financial statements and schedules of the Department of Natural Resources as of and for the fiscal years ended September 30, 1999 and September 30, 1998 and have issued our reports thereon dated June 16, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department's financial statements and schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement and schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and schedules and not to provide assurance on the internal control over financial reporting. However, we noted certain

matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements and schedules. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 1 through 3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements and/or schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described in the previous paragraph is a material weakness.

This report is intended solely for the information and use of the Natural Resources Commission, the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

Independent Auditor's Report on Compliance With
Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in
Accordance With OMB Circular A-133

June 16, 2000

Mr. Keith J. Charters, Chairperson
Natural Resources Commission
and
Mr. K.L. Cool, Director
Department of Natural Resources
Stevens T. Mason Building
Lansing, Michigan

Dear Mr. Charters and Mr. Cool:

Compliance

We have audited the compliance of the Department of Natural Resources with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each major federal program for the fiscal years ended September 30, 1999 and September 30, 1998. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the previous paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining,

on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

In our opinion, the Department of Natural Resources complied, in all material respects, with the requirements referred to in the second previous paragraph that are applicable to each major federal program for the fiscal years ended September 30, 1999 and September 30, 1998. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 4 through 7.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Department's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 4 through 7.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described in the previous paragraph is a material weakness.

This report is intended solely for the information and use of the Natural Resources Commission, the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

Descriptions of Special Revenue Funds

GAME AND FISH PROTECTION FUND

This Fund was established in 1921 and operates under Part 435, Act 451, P.A. 1994, as amended, and is financed principally by the sale of hunting and fishing licenses. The license fees are set by statute and their purpose is to support the conservation program for preservation and control of wildlife and fish. The Fund also receives funding from the investment earnings of the Game and Fish Protection Trust Fund. The Fund provides financial support for Statewide hunting and fishing programs. Resource management, research, enforcement of hunting and fishing laws, and acquisition of lands to be used for hunting and fishing purposes are examples of uses of this Fund.

MICHIGAN STATE WATERWAYS FUND

This Fund was established in 1947 and operates under Part 781, Act 451, P.A. 1994, as amended. It receives a portion of watercraft registration fees and gasoline taxes, some of which are collected by other State agencies and transferred to this Fund. The Fund provides for improvement of lake harbors and inland waterways; construction, operation and maintenance of recreational boating facilities; property acquisition; and administration.

MARINE SAFETY FUND

This Fund was established in 1967 and operates under Part 801, Act 451, P.A. 1994, as amended. The Fund is financed principally by 49% of watercraft registration fees imposed by this Act. The Fund provides for water safety education programs, law enforcement, and regulation of watercraft on the waters of this State.

GAME AND FISH PROTECTION TRUST FUND

This Fund was established in 1986 and operates under Part 437, Act 451, P.A. 1994, as amended, to restrict certain assets for the purpose of generating interest and earnings for transfer to the Game and Fish Protection Fund each year. Additional investment funding is being provided by mineral royalties from lands acquired by the Game and Fish Protection Fund, direct sale proceeds, and other revenues, which, by statute, are retained for permanent investments.

STATE PARK IMPROVEMENT FUND

This Fund was established in 1960 and operates under Part 741, Act 451, P.A. 1994, as amended. It is primarily financed by State park use and concession fees and motor vehicle permit fees necessary for entry by motor vehicles into designated State parks. These fees are the primary funding source for the operation, maintenance, and improvements of the State park system.

COMBINED RECREATION BOND FUND - LOCAL PROJECTS

This Fund was established in 1988 and operates under Parts 196 and 715, Act 451, P.A. 1994, as amended. The balances remaining in the Fund reflect proceeds and interest earnings remaining from two bond packages. The first bond package was \$70 million of general obligation bonds approved by voters in November 1988 as part of a \$140 million bond package for financing State and local public recreation projects. The second bond package was \$50 million of general obligation bonds approved by voters in November 1998 as part of a \$675 million bond package known as the "Clean Michigan Initiative." The proceeds from the bond package approved in 1988 are being used to provide grants and loans to local units of government in the amounts of \$65 million to local recreation projects and \$5 million to discourage development of open space and underdeveloped lands. The proceeds from the bond package approved in 1998 are being used to provide grants to local units of government for local recreation projects.

MICHIGAN NATURAL RESOURCES TRUST FUND

The State Constitution was amended in 1984 to provide for a "Michigan Natural Resources Trust Fund," which was implemented in 1985. The Fund operates under Part 19, Act 451, P.A. 1994, as amended. Most rentals, royalties, and other revenues derived from mineral, coal, oil, and gas interests on State-owned land are credited to the Fund. Part 19 was amended in 1995 (Act 60, P.A. 1995) to redirect a portion (\$10 million per year), previously committed to this Fund, to the Michigan State Parks Endowment Fund.

In accordance with statutory provisions, this Fund is to accumulate up to \$400 million in reserves for permanent investments. The amount accumulated toward the cap is shown as a reservation of fund balance. Earnings on investments and one third of royalty earnings are available for appropriation. Two thirds of royalty earnings are added to amounts held for permanent investments until the investment reserve reaches

\$200 million. After that time, all royalties are restricted for investment and only interest is available to appropriate. Appropriated funds are used for grants to local units of government as well as State agencies to acquire or develop outdoor public recreation facilities.

MICHIGAN STATE PARKS ENDOWMENT FUND

This Fund was established in 1994 and operates under Part 741, Act 451, P.A. 1994, as amended, to finance operations, maintenance, and capital improvements at Michigan State parks. The Fund was established with a \$40 million equity transfer from the sale of the Accident Fund of Michigan to provide funds for permanent investments. By statute, up to \$10 million per year of revenues from oil and gas bonuses, rentals, and royalties from State-owned land are to be deposited in this Fund until its accumulated principal reaches \$400 million. The Fund's investment reserve will be capped at \$800 million. The Legislature is limited to appropriating no more than \$5 million, adjusted for inflation, each year from the Fund until the cap is attained. When the Fund's reserve reaches \$800 million, only the interest and earnings in excess of the amount needed to maintain the \$800 million principal limit may be expended.

MICHIGAN NONGAME FISH AND WILDLIFE FUND

This Fund was established in 1983 and operates under Part 439, Act 451, P.A. 1994, as amended, to provide for research and management of nongame fish and wildlife, designated endangered species, and designated plant species of this State. Until the assets of the Fund exceed \$6 million, State income taxpayers may designate \$2 or more of their tax refunds to this Fund. The Fund may also receive appropriations from other funds, donations, and investment income. At least 20% of the Fund's annual revenues from taxpayers' contributions must be retained for permanent investments.

MICHIGAN CIVILIAN CONSERVATION CORPS ENDOWMENT FUND

This Fund was established by Act 394, P.A. 1994, as amended. The Michigan Civilian Conservation Corps was established for the purpose of conserving, improving, and developing the State's natural resources and for enhancing, preserving, and maintaining public lands and waters through the employment of residents of this State in work training programs. The Fund's permanent investment reserve was provided by \$20 million earmarked from the sale of the Accident Fund of Michigan. Only the interest earnings of the Fund can be expended.

FOREST DEVELOPMENT FUND

This Fund was established in 1993, along with the Michigan Forest Finance Authority, and operates under Part 505, Act 451, P.A. 1994, as amended. The Authority is authorized to acquire: standing timber, timber cutting rights, and the State's interest in contracts granting cutting rights on State tax-reverted lands and on other lands in the State forest system. Revenues are derived from the sale of forest products and are used for forest management operations and practices. The Authority may issue, but thus far has not issued, bonds.

Description of Capital Projects Fund

COMBINED RECREATION BOND FUND - STATE PROJECTS

This Fund was established in 1988 and operates under Parts 196 and 715, Act 451, P.A. 1994, as amended. The balances remaining in the Fund reflect proceeds and investment earnings remaining from two bond packages. The first bond package was \$70 million of general obligation bonds approved by voters in November 1988 as part of a \$140 million bond package for financing State and local public recreation projects. The second bond package was \$50 million of general obligation bonds approved by voters in November 1998 as part of a \$675 million bond package known as the "Clean Michigan Initiative." The proceeds from the bond package approved in 1988 are being used to construct, expand, and develop recreational facilities at State parks. The proceeds from the bond package approved in 1998 are being used for infrastructure improvements at State parks.

DEPARTMENT OF NATURAL RESOURCES
 Combined Balance Sheet
 As of September 30
 (in thousands)

	Governmental Fund Types			
	Special Revenue Funds		Capital Projects Fund	
	1999	1998	1999	1998
ASSETS				
Cash	\$ 10	\$ 4	\$	\$
Equity in Common Cash	406,326	413,746	4,085	5,321
Taxes, interest, and penalties receivable	49	85		
Amounts due from other funds	38		183	
Amounts due from federal agencies	2,427	1,186		
Amounts due from local units	3	160		
Inventories	48	82		
Investments - Long-term (Note 5)	120,538	96,782		
Other assets	<u>18,031</u>	<u>14,802</u>		
Total Assets	<u>\$ 547,471</u>	<u>\$ 526,847</u>	<u>\$ 4,268</u>	<u>\$ 5,321</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants outstanding	\$ 1,176	\$ 1,765	\$ 2	\$
Accounts payable and other liabilities	35,456	27,942	345	85
Amounts due to other funds	340	375	183	
Deferred revenue	<u>197</u>	<u>1,240</u>		
Total Liabilities	<u>\$ 37,169</u>	<u>\$ 31,322</u>	<u>\$ 529</u>	<u>\$ 85</u>
Fund Balances:				
Reserves for:				
Budgetary carry-forwards:				
Encumbrances	\$ 23,557	\$ 9,579	\$	\$
Restricted revenues (Note 3)	29,520	26,996		
Multi-year projects	44,570	65,663		
Funds held as permanent investments	320,100	297,206		
Unrealized gain (loss) on investments (Note 5)	<u>(1,775)</u>	<u>6,269</u>		
Total Reserved	\$ 415,971	\$ 405,714	\$ 0	\$ 0
Unreserved	<u>94,330</u>	<u>89,811</u>	<u>3,739</u>	<u>5,236</u>
Total Fund Balances	<u>\$ 510,302</u>	<u>\$ 495,525</u>	<u>\$ 3,739</u>	<u>\$ 5,236</u>
Total Liabilities and Fund Balances	<u>\$ 547,471</u>	<u>\$ 526,847</u>	<u>\$ 4,268</u>	<u>\$ 5,321</u>

The accompanying notes are an integral part of the financial statements.

DEPARTMENT OF NATURAL RESOURCES
 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
 Fiscal Years Ended September 30
 (in thousands)

	Governmental Fund Types			
	Special Revenue Funds		Capital Projects Fund	
	1999	1998	1999	1998
REVENUES				
Taxes	\$ 89	\$ 133	\$	\$
From federal agencies	4,378	2,810		
From licenses and permits:				
Boat registration	9,625	9,607		
Camping fees	16,494	14,938		
Hunting, fishing, and trapping licenses	45,338	45,941		
Motor vehicle permits	10,356	10,505		
Other licenses and permits	3,522	3,702		
Miscellaneous:				
Interest and investment revenue	28,221	28,435	264	311
Unrealized gain (loss) on investments (Note 5)	(8,044)	3,979		
Sale of timber	20,582	21,727		
Oil, gas, and mineral royalties	30,113	38,989		
Other miscellaneous revenue	2,816	4,199	(2)	(23)
Total Revenues	<u>\$ 163,491</u>	<u>\$ 184,965</u>	<u>\$ 262</u>	<u>\$ 288</u>
EXPENDITURES				
Current	\$ 132,040	\$ 119,935	\$	\$ 1
Capital outlay projects	27,950	30,705	1,757	434
Total Expenditures	<u>\$ 159,989</u>	<u>\$ 150,640</u>	<u>\$ 1,757</u>	<u>\$ 435</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 3,502</u>	<u>\$ 34,324</u>	<u>\$ (1,495)</u>	<u>\$ (147)</u>
OTHER FINANCING SOURCES				
Operating transfers in:				
Investment income from Game and Fish Protection Trust Fund	\$ 4,427	\$ 3,915	\$	\$
Oil and gas royalties from Michigan Natural Resources Trust Fund	10,000	10,000		
Gas tax from Michigan Transportation Fund	14,698	14,309		
From other DNR funds		484		
Total Financing Sources	<u>\$ 29,125</u>	<u>\$ 28,708</u>	<u>\$ 0</u>	<u>\$ 0</u>
OTHER FINANCING USES				
Operating transfers out:				
To General Fund for operations	\$ (639)	\$ (792)	\$	\$
To General Fund for other departments' services provided	(2,784)	(2,390)	(2)	(2)
To other DNR funds	(14,427)	(13,915)		
Total Financing Uses	<u>\$ (17,850)</u>	<u>\$ (17,098)</u>	<u>\$ (2)</u>	<u>\$ (2)</u>
Total Other Financing Sources (Uses)	<u>\$ 11,275</u>	<u>\$ 11,610</u>	<u>\$ (2)</u>	<u>\$ (2)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 14,777	\$ 45,935	\$ (1,497)	\$ (149)
Fund Balances - Beginning of fiscal year	495,525	447,300	5,236	5,385
Restatement of fund balances due to accounting change (Note 5)		2,291		
Fund Balances - End of fiscal year	<u>\$ 510,302</u>	<u>\$ 495,525</u>	<u>\$ 3,739</u>	<u>\$ 5,236</u>

The accompanying notes are an integral part of the financial statements.

DEPARTMENT OF NATURAL RESOURCES
 Schedule of General Fund Revenues and Operating Transfers
 Fiscal Years Ended September 30-
 (in thousands)

REVENUES	<u>1999</u>	<u>1998</u>
From federal agencies	\$ 19,579	\$ 16,754
From licenses and permits:		
Snowmobile registration and trail fees	3,490	3,089
Off-road vehicle licenses	2,029	1,979
Other licenses and permits	826	874
Miscellaneous:		
Withdrawal fees - farmland and open spaces agreements	3,132	2,573
Revenue from sales of land and leases	4,811	5,508
Other	<u>4,624</u>	<u>4,978</u>
Total Revenues	<u>\$ 38,491</u>	<u>\$ 35,755</u>
 OPERATING TRANSFERS		
From Michigan Transportation Fund - gas tax	\$ 3,674	\$ 3,577
From other departments	<u>86</u>	<u></u>
Total Operating Transfers	<u>\$ 3,760</u>	<u>\$ 3,577</u>
Total Revenues and Operating Transfers	<u>\$ 42,251</u>	<u>\$ 39,332</u>

The accompanying notes are an integral part of the financial schedules.

~~DEPARTMENT OF NATURAL RESOURCES~~
 Schedule of Sources and Disposition of General Fund Authorizations
~~Fiscal Years Ended September 30~~
 (in thousands)

	1999	1998
SOURCES OF AUTHORIZATIONS		
General purpose appropriations	\$ 52,150	\$ 57,883
Budgetary adjustments	22	31
Balances carried forward	38,297	29,344
Restricted financing sources	45,770	43,119
Less: Intrafund expenditure reimbursements	<u>(3,919)</u>	<u>(4,709)</u>
Total	<u>\$ 132,320</u>	<u>\$ 125,667</u>
 DISPOSITION OF AUTHORIZATIONS		
Gross expenditures and operating transfers out	\$ 95,734	\$ 91,408
Less: Intrafund expenditure reimbursements	<u>(3,919)</u>	<u>(4,709)</u>
Net expenditures and operating transfers out	<u>\$ 91,815</u>	<u>\$ 86,699</u>
 Balances carried forward:		
Multi-year projects	\$ 12,543	\$ 11,831
Encumbrances	2,261	594
Restricted revenue - not authorized	<u>25,279</u>	<u>25,872</u>
Total balances carried forward	<u>\$ 40,083</u>	<u>\$ 38,297</u>
Balances lapsed	<u>\$ 421</u>	<u>\$ 671</u>
Total	<u>\$ 132,320</u>	<u>\$ 125,667</u>

The accompanying notes are an integral part of the financial schedules.

Notes to the Financial Statements and Schedules

Note 1 Significant Accounting Policies

a. Reporting Entity - Financial Statements

The accompanying financial statements report the financial position and results of operations of the following funds administered by the Department of Natural Resources (DNR) as of and for the fiscal years ended September 30, 1999 and September 30, 1998:

Special Revenue

Game and Fish Protection Fund

Michigan State Waterways Fund

Marine Safety Fund

Game and Fish Protection Trust Fund

State Park Improvement Fund

Combined Recreation Bond Fund - Local Projects

Michigan Natural Resources Trust Fund

Michigan State Parks Endowment Fund

Michigan Nongame Fish and Wildlife Fund

Michigan Civilian Conservation Corps Endowment Fund

Forest Development Fund

Capital Projects

Combined Recreation Bond Fund - State Projects

These funds are a part of the State of Michigan reporting entity and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

b. Reporting Entity - Financial Schedules

The accompanying financial schedules report the results of the governmental operations of DNR for the fiscal years ended September 30, 1999 and September 30, 1998.

c. Basis of Accounting

The financial statements and schedules contained in this report are prepared on the modified accrual basis of accounting. The modified accrual basis of accounting, which emphasizes the measurement of current financial resource flows, is explained in more detail in the *SOMCAFR*.

d. Basis of Presentation

The accompanying financial statements present only the funds listed in Note 1a. Accordingly, these financial statements are not intended to present fairly the financial position and results of operations of DNR, the State of Michigan, or the State's special revenue and capital projects funds. The accompanying financial schedules include only the revenues and operating transfers and the sources and disposition of authorizations for DNR's General Fund accounts. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either DNR or the State's General Fund in accordance with generally accepted accounting principles.

The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies, Budgeting and Budgetary Control, Treasurer's Common Cash, Pension Benefits and Other Postemployment Benefits, Compensated Absences, Deposits and Investments, and Interfund Receivables and Payables.

The financial transactions of DNR are recorded in the General Fund and individual funds in the State's central accounting system. The various natural resource funds are combined in the *SOMCAFR* into governmental fund types described as follows:

Special Revenue Funds: This fund group includes operating fund activities which account for the proceeds of certain specific revenue sources that are legally restricted for specific purposes.

Capital Projects Fund: This group accounts for the acquisition or construction of major State capital facilities financed by bond proceeds.

Note 2 Fixed Assets and General Long-Term Obligations

See the notes to the financial statements presented in the *SOMCAFR* for information regarding fixed assets and general long-term obligations.

Note 3 Fund Balances Reserved for Restricted Revenue

The line entitled "Total Reserved" on the combined balance sheet includes the following fund balances (in thousands) reserved for revenues restricted for specific purposes:

	<u>September 30</u>	
	<u>1999</u>	<u>1998</u>
<u>Game and Fish Protection Fund</u>		
Deer Habitat Improvement	\$ 1,731	\$ 1,388
Fisheries Settlement	925	1,050
Wildlife Resource Protection	1,598	1,195
Waterfowl Area Permits Program	18	38
Turkey Program	2,880	2,752
Youth Hunting and Fishing Education Outreach	107	
Pittman-Robertson Program	316	489
Dingell-Johnson Program	1	
Duck Stamp	976	1,024
Waterfowl Habitat Improvement	18	18
Total	<u>\$ 8,571</u>	<u>\$ 7,954</u>
 <u>Michigan State Waterways Fund</u>		
Marine Fuel for Resale	\$ 86	\$ 547
Harbor Development Subfund	20,864	18,496
Total	<u>\$ 20,949</u>	<u>\$ 19,042</u>
 Total Restricted Revenue Reserves	 <u>\$ 29,520</u>	 <u>\$ 26,996</u>

Subsequent to our audit fieldwork, DNR determined that the Deer Habitat Improvement Fund had been underfunded by approximately \$2.1 million since 1997. This was the result of DNR's misinterpretation of a change in antlerless deer licenses. A transfer will be made from the unrestricted fund balance of the Game and Fish Protection Fund to repay the Deer Habitat Improvement Fund.

Note 4 Schedule of Sources and Disposition of General Fund Authorizations

The various elements of the schedule of sources and disposition of General Fund authorizations are defined as follows:

- a. General purpose appropriations: Original appropriation and any supplemental appropriations that are financed by General Fund/general purpose revenue.
- b. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenue - authorized, and restricted revenue - not authorized that were not spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry-forward without additional legislative authorization, except for the restricted revenue - not authorized.
- c. Restricted financing sources: Collections of restricted revenues, restricted operating transfers, and restricted intrafund expenditure reimbursements to finance department programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenue - authorized or restricted revenue - not authorized.
- d. Restricted revenue - not authorized: Revenue that, by statute, is restricted for use to a particular department program or activity. However, the expenditure of the restricted revenue is subject to annual legislative appropriation.

Note 5 Accounting Changes and Restatements

During fiscal year 1997-98, the State implemented Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The provisions of the statement require investments to be reported at fair value rather than at cost. The effect of the change in accounting principles for investments resulted in a restatement of fund balances as of September 30, 1997 and is summarized (in thousands) below:

Fund	September 30, 1997 As Previously Reported	Net Appreciation In Fair Value of Investments	September 30, 1997 As Restated
Game and Fish Protection Trust Fund	\$ 62,107	\$ 452	\$ 62,559
Michigan Natural Resources Trust Fund	\$199,636	\$1,334	\$200,969
Michigan State Parks Endowment Fund	\$ 64,393	\$ 505	\$ 64,898

For financial reporting purposes, GASB Statement No. 31 also requires the recognition of unrealized investment gains and losses for changes in the fair value of investments. The current year unrealized gains and losses represent the change from book value to fair value as of September 30. The amount shown on the statement of revenues, expenditures, and changes in fund balances as unrealized gains or losses is a cumulative amount and represents the change in fair value from September 30 of the prior year to September 30 of the current year.

For budgetary purposes, including the calculation of income available for spending, the cost basis is used, consistent with prior year practices.

Note 6 Contingencies Related to Litigation

Litigation: DNR accrues liabilities related to significant legal proceedings if a loss is probable and reasonably estimable. DNR is a party to various legal proceedings seeking damages or injunctive or other relief.

Gain Contingencies: In the event that it is determined that the credits under Section 29 in the Internal Revenue Code of the recent sale of royalties must be distributed to the Michigan Natural Resources Trust Fund, the Fund will receive the amount currently recorded in the Fund as unearned receipts payable. From the overall State perspective; however, a net gain or loss contingency does not appear to exist with respect to that issue.

DNR is currently not recognizing receivables from possible oil and gas production audits, except to the extent that recovery occurs shortly after year-end. The ultimate amount of additional revenues related to prior year production is not recorded and the amount that DNR may recover is not reasonably estimable.

Note 7 Subsequent Event - Clean Michigan Initiative

In October 1999, the State issued Clean Michigan Initiative bonds totaling \$96.9 million. Of that issuance, \$150,000 was allocated to DNR for administering grants to local parks and recreation enhancement opportunities and \$15,240,000 was allocated for state park revitalization through DNR.

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SUPPLEMENTAL FINANCIAL
STATEMENTS AND SCHEDULES

DEPARTMENT OF NATURAL RESOURCES
Combining Balance Sheet
Special Revenue Funds
As of September 30
(in thousands)

	Game and Fish Protection Fund		Michigan State Waterways Fund		Marine Safety Fund	
	1999	1998	1999	1998	1999	1998
ASSETS						
Cash	\$ 2	\$ 1	\$ 1	\$	\$	\$
Equity in Common Cash	22,370	25,574	58,771	51,380	4,590	5,178
Taxes, interest, and penalties receivable			49	85		
Amounts due from other funds						
Amounts due from federal agencies	1,753	653		448	334	85
Amounts due from local units		98				
Inventories			48	82		
Investments - Long-term						
Other assets	4,821	3,919		1		
Total Assets	\$ 28,946	\$ 30,245	\$ 58,870	\$ 51,996	\$ 4,924	\$ 5,263
LIABILITIES AND FUND BALANCES						
Liabilities:						
Warrants outstanding	\$ 383	\$ 163	\$ 113	\$ 102	\$ 4	\$ 31
Accounts payable and other liabilities	3,644	3,941	1,831	1,809	34	901
Amounts due to other funds	192	217	32	50	1	3
Deferred revenue						
Total Liabilities	\$ 4,219	\$ 4,321	\$ 1,976	\$ 1,960	\$ 39	\$ 935
Fund Balances:						
Reserves for:						
Budgetary carry-forwards:						
Encumbrances	\$ 1,762	\$ 768	\$ 3,016	\$ 2,868	\$ 4	\$ 92
Restricted revenues	8,571	7,954	20,949	19,042		
Multi-year projects	753	1,093	12,451	13,565		
Funds held as permanent investments	1,809	1,806				
Unrealized gain (loss) on investments						
Total Reserved	\$ 12,895	\$ 11,620	\$ 36,417	\$ 35,475	\$ 4	\$ 92
Unreserved	11,832	14,304	20,477	14,560	4,881	4,236
Total Fund Balances	\$ 24,727	\$ 25,924	\$ 56,894	\$ 50,036	\$ 4,885	\$ 4,328
Total Liabilities and Fund Balances	\$ 28,946	\$ 30,245	\$ 58,870	\$ 51,996	\$ 4,924	\$ 5,263

This schedule continued on next page.

Game and Fish Protection Trust Fund		State Park Improvement Fund		Combined Recreation Bond Fund - Local Projects	
1999	1998	1999	1998	1999	1998
\$ 46,696	\$ 51,044	\$ 7	\$ 3	\$ 5,658	\$ 7,885
				38	
29,009	21,007				
1,259	1,126	12	95		
<u>\$ 76,964</u>	<u>\$ 73,177</u>	<u>\$ 16,715</u>	<u>\$ 17,513</u>	<u>\$ 5,696</u>	<u>\$ 7,885</u>
\$	\$	\$ 140	\$ 361	\$ 150	\$
		1,672	2,327	1,246	3,064
		31	7	38	
		197	1,240		
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,041</u>	<u>\$ 3,935</u>	<u>\$ 1,434</u>	<u>\$ 3,064</u>
\$	\$	\$ 606	\$ 624	\$	\$
		1,915	2,813		
77,551	71,940				
(587)	1,237				
<u>\$ 76,964</u>	<u>\$ 73,177</u>	<u>\$ 2,520</u>	<u>\$ 3,437</u>	<u>\$ 0</u>	<u>\$ 0</u>
		12,154	10,141	4,262	4,822
<u>\$ 76,964</u>	<u>\$ 73,177</u>	<u>\$ 14,674</u>	<u>\$ 13,578</u>	<u>\$ 4,262</u>	<u>\$ 4,822</u>
<u>\$ 76,964</u>	<u>\$ 73,177</u>	<u>\$ 16,715</u>	<u>\$ 17,513</u>	<u>\$ 5,696</u>	<u>\$ 7,885</u>

DEPARTMENT OF NATURAL RESOURCES
 Combining Balance Sheet
 Special Revenue Funds
 As of September 30
 (in thousands)
 Continued

	Michigan Natural Resources Trust Fund		Michigan State Parks Endowment Fund		Michigan Nongame Fish and Wildlife Fund	
	1999	1998	1999	1998	1999	1998
ASSETS						
Cash	\$	\$	\$	\$	\$	\$
Equity in Common Cash	162,437	165,797	54,491	53,947	4,911	4,701
Taxes, interest, and penalties receivable						
Amounts due from other funds						
Amounts due from federal agencies						
Amounts due from local units					3	62
Inventories						
Investments - Long-term	61,861	53,452	29,668	22,323		
Other assets	<u>11,356</u>	<u>9,155</u>	<u>562</u>	<u>378</u>	<u>13</u>	<u>8</u>
Total Assets	<u>\$235,654</u>	<u>\$228,403</u>	<u>\$84,721</u>	<u>\$76,648</u>	<u>\$4,927</u>	<u>\$4,771</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Warrants outstanding	\$ 69	\$ 788	\$ 65	\$ 48	\$ 58	\$ 15
Accounts payable and other liabilities	24,249	13,661	313	411	296	78
Amounts due to other funds	2	5	1	1	6	1
Deferred revenue						
Total Liabilities	<u>\$ 24,320</u>	<u>\$ 14,454</u>	<u>\$ 378</u>	<u>\$ 460</u>	<u>\$ 359</u>	<u>\$ 95</u>
Fund Balances:						
Reserves for:						
Budgetary carry-forwards:						
Encumbrances	\$ 15,447	\$ 4,173	\$ 1,546	\$ 19	\$ 135	\$ 117
Restricted revenues						
Multi-year projects	27,844	45,472	1,607	2,335		
Funds held as permanent investments	141,182	132,949	76,038	67,110	3,520	3,400
Unrealized gain (loss) on investments	<u>(589)</u>	<u>3,676</u>	<u>(600)</u>	<u>1,357</u>		
Total Reserved	\$183,884	\$186,271	\$78,592	\$70,821	\$3,655	\$3,517
Unreserved	<u>27,450</u>	<u>27,679</u>	<u>5,751</u>	<u>5,367</u>	<u>913</u>	<u>1,160</u>
Total Fund Balances	<u>\$211,334</u>	<u>\$213,949</u>	<u>\$84,343</u>	<u>\$76,188</u>	<u>\$4,568</u>	<u>\$4,677</u>
Total Liabilities and Fund Balances	<u>\$235,654</u>	<u>\$228,403</u>	<u>\$84,721</u>	<u>\$76,648</u>	<u>\$4,927</u>	<u>\$4,771</u>

Michigan Civilian Conservation Corps Endowment Fund		Forest Development Fund		Totals	
1999	1998	1999	1998	1999	1998
\$ 21,923	\$ 22,115	\$ 7,783	\$ 8,710	\$ 10	\$ 4
				406,326	413,746
				49	85
				38	
		340		2,427	1,186
				3	160
				48	82
				120,538	96,782
		7	119	18,031	14,802
<u>\$ 21,923</u>	<u>\$ 22,115</u>	<u>\$ 8,130</u>	<u>\$ 8,829</u>	<u>\$ 547,471</u>	<u>\$ 526,847</u>
\$ 3	\$ 10	\$ 192	\$ 247	\$ 1,176	\$ 1,765
38	97	2,134	1,653	35,456	27,942
		37	90	340	375
				197	1,240
<u>\$ 41</u>	<u>\$ 107</u>	<u>\$ 2,362</u>	<u>\$ 1,990</u>	<u>\$ 37,169</u>	<u>\$ 31,322</u>
\$ 5	\$ 7	\$ 1,035	\$ 911	\$ 23,557	\$ 9,579
				29,520	26,996
			385	44,570	65,663
20,000	20,000			320,100	297,206
				(1,775)	6,269
<u>\$ 20,005</u>	<u>\$ 20,007</u>	<u>\$ 1,035</u>	<u>\$ 1,296</u>	<u>\$ 415,971</u>	<u>\$ 405,714</u>
1,877	2,001	4,733	5,543	94,330	89,811
<u>\$ 21,882</u>	<u>\$ 22,008</u>	<u>\$ 5,768</u>	<u>\$ 6,839</u>	<u>\$ 510,302</u>	<u>\$ 495,525</u>
<u>\$ 21,923</u>	<u>\$ 22,115</u>	<u>\$ 8,130</u>	<u>\$ 8,829</u>	<u>\$ 547,471</u>	<u>\$ 526,847</u>

DEPARTMENT OF NATURAL RESOURCES
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Special Revenue Funds
Fiscal Years Ended September 30
(in thousands)

	Game and Fish Protection Fund		Michigan State Waterways Fund	
	1999	1998	1999	1998
REVENUES				
Taxes	\$	\$	\$	\$
From federal agencies	2,850	1,784	89	133
From licenses and permits:			165	581
Boat registration			4,520	4,879
Camping fees				
Hunting, fishing, and trapping licenses	45,338	45,941		
Motor vehicle permits				2
Other licenses and permits	1	2	1,907	917
Miscellaneous:				
Interest and investment revenue	1,309	1,379	2,784	2,799
Unrealized gain (loss) on investments				
Sale of timber	168			
Oil, gas, and mineral royalties				
Other miscellaneous revenue	881	715	960	1,283
Total Revenues	<u>\$ 50,548</u>	<u>\$ 49,820</u>	<u>\$ 10,426</u>	<u>\$ 10,593</u>
EXPENDITURES				
Current	\$ 50,953	\$ 43,382	\$ 13,755	\$ 12,719
Capital outlay projects	3,539	2,954	4,219	8,419
Total Expenditures	<u>\$ 54,492</u>	<u>\$ 46,336</u>	<u>\$ 17,974</u>	<u>\$ 21,138</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (3,945)</u>	<u>\$ 3,484</u>	<u>\$ (7,549)</u>	<u>\$ (10,545)</u>
OTHER FINANCING SOURCES				
Operating transfers in:				
Investment income from Game and Fish Protection Trust Fund	\$ 4,427	\$ 3,915	\$	\$
Oil and gas royalties from Michigan Natural Resources Trust Fund				
Gas tax from Michigan Transportation Fund			14,698	14,309
From other DNR funds				
Total Financing Sources	<u>\$ 4,427</u>	<u>\$ 3,915</u>	<u>\$ 14,698</u>	<u>\$ 14,309</u>
OTHER FINANCING USES				
Operating transfers out:				
To General Fund for operations	\$ (639)	\$ (792)	\$	\$
To General Fund for other departments' services provided	(1,041)	(791)	(291)	(235)
To other DNR funds				
Total Financing Uses	<u>\$ (1,680)</u>	<u>\$ (1,584)</u>	<u>\$ (291)</u>	<u>\$ (235)</u>
Total Other Financing Sources (Uses)	<u>\$ 2,748</u>	<u>\$ 2,331</u>	<u>\$ 14,407</u>	<u>\$ 14,074</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (1,197)	\$ 5,816	\$ 6,858	\$ 3,529
Fund Balances - Beginning of fiscal year	25,924	20,109	50,036	46,506
Restatement of fund balances due to accounting change				
Fund Balances - End of fiscal year	<u>\$ 24,727</u>	<u>\$ 25,924</u>	<u>\$ 56,894</u>	<u>\$ 50,036</u>

This schedule continued on next page.

Marine Safety Fund		Game and Fish Protection Trust Fund		State Park Improvement Fund		Combined Recreation Bond Fund - Local Projects	
1999	1998	1999	1998	1999	1998	1999	1998
\$	\$	\$	\$	\$	\$	\$	\$
754	445						
5,105	4,729						
				16,494	14,938		
				10,356	10,503		
				1,612	2,783		
290	307	4,298	4,054	715	647	348	496
		(1,824)	785				
		2,964	3,953				
		2,785	5,440				
54	51	5	8	72	147	18	105
\$ 6,203	\$ 5,532	\$ 8,229	\$ 14,239	\$ 29,249	\$ 29,017	\$ 366	\$ 601
\$ 4,581	\$ 4,601	\$ 5	\$	\$ 25,503	\$ 23,825	\$ 923	\$ 2,283
				2,481	1,189		
\$ 4,581	\$ 4,601	\$ 5	\$	\$ 27,983	\$ 25,014	\$ 923	\$ 2,283
\$ 1,622	\$ 930	\$ 8,224	\$ 14,239	\$ 1,266	\$ 4,004	\$ (557)	\$ (1,681)
\$	\$	\$	\$	\$	\$	\$	\$
			302				
\$ 0	\$ 0	\$ 0	\$ 302	\$ 0	\$ 0	\$ 0	\$ 0
\$	\$	\$	\$	\$	\$	\$	\$
(1,065)	(963)	(10)	(8)	(169)	(173)	(3)	(4)
		(4,427)	(3,915)				
\$ (1,065)	\$ (963)	\$ (4,437)	\$ (3,923)	\$ (169)	\$ (173)	\$ (3)	\$ (4)
\$ (1,065)	\$ (963)	\$ (4,437)	\$ (3,621)	\$ (169)	\$ (173)	\$ (3)	\$ (4)
\$ 557	\$ (33)	\$ 3,787	\$ 10,618	\$ 1,097	\$ 3,830	\$ (560)	\$ (1,686)
4,328	4,361	73,177	62,107	13,578	9,748	4,822	6,507
			452				
\$ 4,885	\$ 4,328	\$ 76,964	\$ 73,177	\$ 14,674	\$ 13,578	\$ 4,262	\$ 4,822

DEPARTMENT OF NATURAL RESOURCES
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Special Revenue Funds
Fiscal Years Ended September 30
(in thousands)
Continued

	Michigan Natural Resources Trust Fund		Michigan State Parks Endowment Fund	
	1999	1998	1999	1998
REVENUES				
Taxes	\$	\$	\$	\$
From federal agencies				
From licenses and permits:				
Boat registration				
Camping fees				
Hunting, fishing, and trapping licenses				
Motor vehicle permits				
Other licenses and permits				
Miscellaneous:				
Interest and investment revenue	12,025	12,300	4,637	4,342
Unrealized gain (loss) on investments	(4,264)	2,342	(1,957)	852
Sale of timber				
Oil, gas, and mineral royalties	27,328	33,550		
Other miscellaneous revenue	10	493		5
Total Revenues	<u>\$ 35,098</u>	<u>\$ 48,684</u>	<u>\$ 2,680</u>	<u>\$ 5,199</u>
EXPENDITURES				
Current	\$ 10,933	\$ 8,465	\$ 3,645	\$ 3,542
Capital outlay projects	16,739	17,381	857	332
Total Expenditures	<u>\$ 27,671</u>	<u>\$ 25,846</u>	<u>\$ 4,502</u>	<u>\$ 3,874</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 7,427</u>	<u>\$ 22,839</u>	<u>\$ (1,822)</u>	<u>\$ 1,326</u>
OTHER FINANCING SOURCES				
Operating transfers in:				
Investment income from Game and Fish Protection Trust Fund	\$	\$	\$	\$
Oil and gas royalties from Michigan Natural Resources Trust Fund			10,000	10,000
Gas tax from Michigan Transportation Fund				
From other DNR funds		182		
Total Financing Sources	<u>\$ 0</u>	<u>\$ 182</u>	<u>\$ 10,000</u>	<u>\$ 10,000</u>
OTHER FINANCING USES				
Operating transfers out:				
To General Fund for operations	\$	\$	\$	\$
To General Fund for other departments' services provided	(42)	(40)	(23)	(37)
To other DNR funds	(10,000)	(10,000)		
Total Financing Uses	<u>\$ (10,042)</u>	<u>\$ (10,040)</u>	<u>\$ (23)</u>	<u>\$ (37)</u>
Total Other Financing Sources (Uses)	<u>\$ (10,042)</u>	<u>\$ (9,858)</u>	<u>\$ 9,977</u>	<u>\$ 9,963</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ (2,615)</u>	<u>\$ 12,980</u>	<u>\$ 8,155</u>	<u>\$ 11,289</u>
Fund Balances - Beginning of fiscal year	213,949	199,636	76,188	64,393
Restatement of fund balances due to accounting change		1,334		505
Fund Balances - End of fiscal year	<u>\$ 211,334</u>	<u>\$ 213,949</u>	<u>\$ 84,343</u>	<u>\$ 76,188</u>

Michigan Nongame Fish and Wildlife Fund		Michigan Civilian Conservation Corps Endowment Fund		Forest Development Fund		Totals	
1999	1998	1999	1998	1999	1998	1999	1998
\$	\$	\$	\$	\$	\$	\$ 89	\$ 133
				609	1	4,378	2,810
						9,625	9,607
						16,494	14,938
						45,338	45,941
						10,356	10,505
				2	1	3,522	3,702
245	272	1,149	1,250	421	588	28,221	28,435
						(8,044)	3,979
				17,451	17,774	20,582	21,727
						30,113	38,989
<u>734</u>	<u>1,288</u>			<u>83</u>	<u>103</u>	<u>2,816</u>	<u>4,199</u>
<u>\$ 979</u>	<u>\$ 1,560</u>	<u>\$ 1,149</u>	<u>\$ 1,250</u>	<u>\$ 18,565</u>	<u>\$ 18,467</u>	<u>\$ 163,491</u>	<u>\$ 184,965</u>
\$ 1,083	\$ 708	\$ 1,269	\$ 1,002	\$ 19,391	\$ 19,409	\$ 132,040	\$ 119,935
				115	430	27,950	30,705
<u>\$ 1,083</u>	<u>\$ 708</u>	<u>\$ 1,269</u>	<u>\$ 1,002</u>	<u>\$ 19,506</u>	<u>\$ 19,839</u>	<u>\$ 159,989</u>	<u>\$ 150,640</u>
<u>\$ (104)</u>	<u>\$ 852</u>	<u>\$ (120)</u>	<u>\$ 248</u>	<u>\$ (941)</u>	<u>\$ (1,371)</u>	<u>\$ 3,502</u>	<u>\$ 34,324</u>
\$	\$	\$	\$	\$	\$	\$ 4,427	\$ 3,915
						10,000	10,000
						14,698	14,309
						0	484
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 29,125</u>	<u>\$ 28,708</u>
\$	\$	\$	\$	\$	\$	\$ (639)	\$ (792)
(4)	(4)	(6)	(5)	(130)	(130)	(2,784)	(2,390)
						(14,427)	(13,915)
<u>\$ (4)</u>	<u>\$ (4)</u>	<u>\$ (6)</u>	<u>\$ (5)</u>	<u>\$ (130)</u>	<u>\$ (130)</u>	<u>\$ (17,850)</u>	<u>\$ (17,098)</u>
<u>\$ (4)</u>	<u>\$ (4)</u>	<u>\$ (6)</u>	<u>\$ (5)</u>	<u>\$ (130)</u>	<u>\$ (130)</u>	<u>\$ 11,275</u>	<u>\$ 11,610</u>
\$ (108)	\$ 848	\$ (126)	\$ 243	\$ (1,070)	\$ (1,501)	\$ 14,777	\$ 45,935
4,677	3,829	22,008	21,765	6,839	8,340	495,525	447,300
							2,291
<u>\$ 4,568</u>	<u>\$ 4,677</u>	<u>\$ 21,882</u>	<u>\$ 22,008</u>	<u>\$ 5,768</u>	<u>\$ 6,839</u>	<u>\$ 510,302</u>	<u>\$ 495,525</u>

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DEPARTMENT OF NATURAL RESOURCES
 Schedule of Certain General Fund Assets and Liabilities
 As of September 30
 (in thousands)

ASSETS	<u>1999</u>	<u>1998</u>
Amounts due from federal agencies	\$ 7,990	\$ 6,767
Amounts due from local units	\$ 415	\$ 1,274
Amounts due from component units	\$ 83	\$ 132
Inventories	\$ 20	\$ 20
Other current assets	\$ 680	\$ 1,224
LIABILITIES		
Amounts due to vendors for goods and services	\$ 4,235	\$ 5,947
Amounts due to local units for tax-reverted land	\$ 6,132	\$ 7,917
Amounts due to other funds	\$ 5	\$ 4
Amounts due to component units	\$ 323	\$ 229
Amounts held for others	\$ 1,908	\$ 2,710
Deferred revenue	\$ 100	\$ 40

This schedule of certain General Fund assets and liabilities is not representative of a balance sheet and is not intended to report financial condition. This schedule presents certain significant General Fund assets and liabilities which result directly from the operations of, and are the responsibility of, the Department of Natural Resources. The schedule excludes certain other assets, such as land, buildings, equipment, equity in Common Cash, and cash in transit, and certain other liabilities, such as warrants outstanding, that are accounted for centrally by the State.

DEPARTMENT OF NATURAL RESOURCES
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 1997 through September 30, 1999-

Federal Agency/Program	CFDA (2) Number	For the Fiscal Year Ended September 30, 1998		
		Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
U.S. Department of Agriculture-				
Forestry Incentives Program	10.064	\$ 3,700	\$	\$ 3,700
Conservation Reserve Program	10.069	34,444		34,444
Forestry Research	10.652	4,769		4,769
Cooperative Forestry Assistance	10.664	1,110,408	435,169	1,545,577
Schools and Roads - Grants to States	10.665		3,090,987	3,090,987
Wildfire Prevention Program	10 (3)	10,000		10,000
Farmland Protection Program	10.73-SD21-7-92 (3)	508,707		508,707
Interagency Fire Agreement - U.S. Fires	10 (3)	74,879		74,879
Cooperative Fire Control Agreement	10 (3)	15,991		15,991
Challenge Cost Share	10.R9-04-CS-97-090 (3)	4,873		4,873
Total U.S. Department of Agriculture		\$ 1,767,771	\$ 3,526,156	\$ 5,293,927
U.S. Department of Commerce				
Anadromous Fish Conservation Act Program	11.405	\$ 12,248	\$	\$ 12,248
Interjurisdictional Fisheries Act of 1986	11.407	12,534		12,534
Total U.S. Department of Commerce		\$ 24,782	\$ 0	\$ 24,782
U.S. Department of the Interior				
Sport Fish Restoration	15.605	\$ 6,911,497	\$	\$ 6,911,497
Wildlife Restoration	15.611	7,304,496		7,304,496
Cooperative Endangered Species Conservation Fund	15.615	254,031		254,031
Outdoor Recreation - Acquisition, Development and Planning	15.916	5,006	591,356	596,362
Gray Wolf Recovery	15.14-48-0003-98-102(3)	6,360		6,360
Gap Analysis Program	15 (3)			
Total U.S. Department of the Interior		\$ 14,481,390	\$ 591,356	\$ 15,072,746
U.S. Department of Transportation				
Boating Safety Financial Assistance	20.005	\$ 2,242,687	\$	\$ 2,242,687
National Recreational Trails	20.NRT-001 (3)	203,307		203,307
Total U.S. Department of Transportation		\$ 2,445,994	\$ 0	\$ 2,445,994
U.S. Environmental Protection Agency				
Great Lakes Program	66.469	\$ 12,434	\$	\$ 12,434
Environmental Protection - Consolidated Research	66.500	16,549		16,549
Surveys, Studies, Investigations and Special Purpose Grants	66.606			
Total U.S. Environmental Protection Agency		\$ 28,983	\$ 0	\$ 28,983
U.S. Department of Defense				
Project ELF (Extremely Low Frequency)	12 (3)	\$ 1,166	\$	\$ 1,166
Total U.S. Department of Defense		\$ 1,166	\$ 0	\$ 1,166
Total Federal Expenditures		\$ 18,750,086	\$ 4,117,512	\$ 22,867,598

(1) Basis of Presentation: The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Department of Natural Resources and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in schedule may differ from amounts presented in, or used in the preparation of, the financial statements and schedules.

(2) CFDA is defined as *Catalog of Federal Domestic Assistance*.

(3) CFDA number not available. Number derived from federal agency number and grant or contract number, if available.

<u>For the Fiscal Year Ended September 30, 1999</u>			Total Expended and Distributed
<u>Directly</u> <u>Expended</u>	<u>Distributed</u> <u>to Subrecipients</u>	<u>Total Expended</u> <u>and Distributed</u>	<u>for the</u> <u>Two-Year Period</u>
\$ 4,400	\$	\$ 4,400	\$ 8,100
		0	34,444
		0	4,769
1,084,155	280,264	1,364,419	2,909,996
	3,124,174	3,124,174	6,215,161
		0	10,000
556,500		556,500	1,065,207
230,338		230,338	305,217
		0	15,991
		0	4,873
<u>\$ 1,875,393</u>	<u>\$ 3,404,438</u>	<u>\$ 5,279,831</u>	<u>\$ 10,573,758</u>
\$ 12,907	\$	\$ 12,907	\$ 25,155
12,600		12,600	25,134
<u>\$ 25,507</u>	<u>\$ 0</u>	<u>\$ 25,507</u>	<u>\$ 50,289</u>
\$ 6,955,872	\$	\$ 6,955,872	\$ 13,867,369
8,496,316		8,496,316	15,800,812
135,930		135,930	389,961
2,171	194,393	196,564	792,926
		0	6,360
50,727		50,727	50,727
<u>\$ 15,641,016</u>	<u>\$ 194,393</u>	<u>\$ 15,835,409</u>	<u>\$ 30,908,155</u>
\$ 2,276,864	\$	\$ 2,276,864	\$ 4,519,551
453,541		453,541	656,848
<u>\$ 2,730,405</u>	<u>\$ 0</u>	<u>\$ 2,730,405</u>	<u>\$ 5,176,399</u>
\$ 28,116	\$	\$ 28,116	\$ 40,550
14,989		14,989	31,538
6,081		6,081	6,081
<u>\$ 49,186</u>	<u>\$ 0</u>	<u>\$ 49,186</u>	<u>\$ 78,169</u>
\$	\$	\$ 0	\$ 1,166
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,166</u>
<u>\$ 20,321,507</u>	<u>\$ 3,598,831</u>	<u>\$ 23,920,338</u>	<u>\$ 46,787,936</u>

OTHER SCHEDULES

DEPARTMENT OF NATURAL RESOURCES

Summary Schedule of Prior Audit Findings

As of June 16, 2000

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL STATEMENTS AND SCHEDULES

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 1995 through September 30, 1997

Finding Number: 3

Finding: The Department of Natural Resources (DNR) did not maintain complete internal controls to ensure that payroll costs were accurately allocated among the various funds in the Parks and Recreation Division.

Comments: Effective October 1999, the Parks and Recreation Division implemented a requirement to track time by program. This required that employees track, on paper, the number of hours spent on parks versus boating.

On January 4, 2000, all employees were directed to begin entering their time by program into the Data Collection and Distribution System (the State's timekeeping system). Division management also refined how time was to be reported, allowing the Division to capture not only parks versus boating programs, but also major activities within the programs.

Computer reports are reviewed to ensure that employees are not utilizing predetermined percentages.

Audit Period: October 1, 1995 through September 30, 1997

Finding Number: 6

Finding: DNR did not account for federal revenue from Schools and Roads - Grants to States and the corresponding distribution of the revenue to the counties in which it was generated as revenue and expenditures in the accounting records. Also, DNR had not

distributed, on a timely basis, oil and gas royalties from federal acquired lands governed by the National Forest Act.

Comments: DNR now has an appropriation and records revenue and the distribution as expenditures. Also, DNR now makes the distributions once a year.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 1995 through September 30, 1997

Finding Number: 2

Finding: DNR did not maintain proper internal controls over State park motor vehicle permits.

Comments: DNR requires that all State park motor vehicle permits be counted at year-end in the presence of two individuals (one of whom must be from outside the local unit), who must sign a certification attesting to the accuracy of the count and, in the case of annual permits, to the destruction of those permits.

DNR's Parks and Recreation Division, in conjunction with DNR's Office of Internal Audit, is in the process of developing and implementing an electronic reconciliation and remittance reporting system that will help to more accurately and effectively monitor and reconcile motor vehicle permit sales. This system is currently being tested in six parks.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 1995 through September 30, 1997

Finding Number: 1

Finding: DNR had not established proper internal controls over federal grant accounting and federal financial reporting. In addition, DNR did not maintain complete documentation and accounting records to

support the schedule of federal financial assistance and certain financial reports submitted to federal agencies.

Comments:

DNR has established internal control over federal grant accounting and federal financial reporting. Federal expenditures are now compiled by appropriation, fund, and grant, with new reports that have been developed. These expenditures are reviewed by the federal aid section.

Each division is notified of ineligible expenditures and expenditures without project or grant numbers that need to be removed from the federal funds. At year-end, the reports are run again and any remaining ineligible expenditures, or expenditures without project or grant numbers, are removed from federal funds. The federal aid section keeps a log of all federal draws, which is reconciled with revenue recorded in the accounting system. The federal aid section uses the new reports to prepare the federal financial reports and reconciles the information on the schedule of federal financial assistance, schedule of expenditures of federal awards, and the federal financial reports to what is recorded in the accounting system.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 1995 through September 30, 1997

Finding Number: 4

Finding: DNR did not comply with the post-completion inspection requirements of the federal Land and Water Conservation Fund Act of 1965.

Comments: The federal government provides no source of funding to carry out post-completion inspections. DNR agrees that it is important to establish an effective post-completion program and has requested a supplemental appropriation, which is pending final approval in the Legislature. With these funds, DNR will be covering all or a portion of the salaries associated with a new analyst position (scheduled to be on board by July 2000) and two student assistants (to be on board in July or August 2000). With these new staff, DNR will plan

and undertake a series of actions over the course of the next year to catch up on inspections as well as (with National Park Service approval) implement a self-sustaining, self-certification inspection program.

While no formal post-completion inspections have been completed in the past few years, DNR continues to conduct appropriate follow-up activities for the Land and Water Conservation Program, on a project-by-project basis, in response to reported problems.

Audit Period: October 1, 1995 through September 30, 1997
Finding Number: 5
Finding: DNR did not monitor subrecipients in accordance with the Single Audit Act and federal regulations.
Comments: DNR has taken significant steps to comply with these recommendations.

DEPARTMENT OF NATURAL RESOURCES

Corrective Action Plan
As of November 15, 2000

FINDINGS RELATED TO THE FINANCIAL STATEMENTS AND SCHEDULES

Finding Number: 750001
Finding Title: Revenue Collected at State Parks and Harbor Sites
Management Views: We agree with these recommendations and will comply.
Corrective Action: The Parks and Recreation Division, in cooperation with the Office of Internal Audit, is developing an electronic system to replace the current paper remittance reporting process. This electronic system will increase the accuracy of the individual units' reports and also permit more effective compilation and reconciliation of total reported remittance amounts with the State accounting records. The program was rolled out to six test locations in May 2000. The system is now functioning effectively so roll-out to additional field locations began November 1, 2000, with a target of having all locations trained and using the system by May 2001.
Anticipated Completion Date: Fiscal year 2000-01
Responsible Individual: Thomas Benson, Chief, Office of Internal Audit

Finding Number: 750002
Finding Title: Cash Management
Management Views: We agree with this recommendation and have complied.
Corrective Action: With enhanced internal control in the federal aid section, our major Sport Fish Restoration Program grants and our major Wildlife Restoration Program grants will be able to meet this objective with the

recent addition of one additional staff member in the federal aid section.

Anticipated Completion Date: Fiscal year 2000-01

Responsible Individual: Thomas Benson, Chief, Office of Internal Audit

Finding Number: 750003

Finding Title: Payroll Cost Distribution

Management Views: We agree with this recommendation and will comply.

Corrective Action: The Department of Natural Resources (DNR) will maintain sufficient documentation associated with the procedures used to allocate training and administrative costs to benefiting funds.

Anticipated Completion Date: Fiscal year 2000-01

Responsible Individual: Thomas Benson, Chief, Office of Internal Audit

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 750004

Finding Title: Federal Financial Reporting

Management Views: We agree with this recommendation and have complied.

Corrective Action: Grants F-35-R-24 and F-53-R-15 have been changed to run in succession with the State's fiscal year. Grants NA-97-0153, NA-98-0392, W-127-R-16, and W-141-D-1 have been properly coded with correct coding block information. This corrective action was put into effect October 1, 1998 and expenditures were reconciled with federal financial status reports and the State's accounting system.

Anticipated Completion Date: October 1, 1998

Responsible Individual: Thomas Benson, Chief, Office of Internal Audit

Finding Number: 750005
Finding Title: Terminal Leave Payments Charged to Federal Grants
Management Views: We agree with this recommendation and will comply.
Corrective Action: Effective October 1, 1998, DNR has charged all terminal leave payments to funding sources other than federal grants. The current practice is for federal aid staff to conduct an annual review of all agency object codes related to terminal leave and to instruct Division staff to journal voucher any terminal leave payments charged to federal funds to other appropriate accounts.
Anticipated Completion Date: October 1, 1998
Responsible Individual: Thomas Benson, Chief, Office of Internal Audit

Finding Number: 750006
Finding Title: Subrecipient Monitoring
Management Views: We agree with these recommendations and have complied.
Corrective Action: Effective October 1, 2000, DNR will inform the counties of the *CFDA* title and number, award year, name of the federal agency, and federal requirements on a letter sent with the distribution to the counties. In addition, DNR will send a form with the distribution to the counties asking each county to report back to DNR how, when, and to whom it dispersed the federal funds. The Office of Internal Audit will then confirm in writing with the recipients any disbursements that exceed \$50,000.
Anticipated Completion Date: Fiscal year 2000-01
Responsible Individual: Thomas Benson, Chief, Office of Internal Audit

Finding Number: 750007
Finding Title: Post-Completion Inspections

Management Views: We agree with this recommendation and have complied.

Corrective Action: The Grants Administration Division has established a post-completion compliance process that will aggressively conduct inspections and see self-certification of all outstanding Land and Water Conservation Fund inspections. Additional staff have been added to the Division to conduct these inspections and improve data entry and recordkeeping systems.

Anticipated Completion Date: Fiscal year 2000-01

Responsible Individual: Thomas Benson, Chief, Office of Internal Audit

Glossary of Acronyms and Terms

<i>CFDA</i>	<i>Catalog of Federal Domestic Assistance.</i>
DNR	Department of Natural Resources.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial statements and schedules of an audited entity are fairly presented in conformity with generally accepted accounting principles.
GASB	Governmental Accounting Standards Board.
internal control	A process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations.
low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual Single Audit and if it meets other criteria related to prior audit results. In accordance with State statute, this Single Audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.
material weakness	A condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that either misstatements in amounts that would be material in relation to the financial statements and/or schedules being audited or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur

and not be detected within a timely period by employees in the normal course of performing their assigned functions.

mission	The agency's main purpose or the reason the agency was established.
OMB	U.S. Office of Management and Budget.
questioned costs	Costs tentatively identified as unallowable, undocumented, unapproved, or unreasonable. These costs are subject to disallowance by the federal government.
reportable condition	A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect DNR's ability to (1) record, process, summarize, and report financial data consistent with the assertions of management in the financial statements or schedules or (2) administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants.
Single Audit	A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of generally accepted auditing standards and the standards applicable to financial audits contained in <i>Government Auditing Standards</i> issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.
SOMCAFR	<i>State of Michigan Comprehensive Annual Financial Report.</i>

subrecipient

A nonfederal entity that receives federal awards through another nonfederal entity to carry out a federal program.

unqualified opinion

An auditor's opinion in which the auditor states, without reservation, that the financial statements and schedules are fairly presented in conformity with generally accepted accounting principles or an auditor's opinion in which the auditor states, without reservation, that the audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.