



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

Audit report information can be accessed at:

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Michigan
Office of the Auditor General
REPORT SUMMARY

Financial Audit
Including the Provisions of the Single Audit Act

Report Number:
 751-0100-10

Department of Natural Resources

October 1, 2007 through September 30, 2009

Released:
 June 2010

A Single Audit is designed to meet the needs of all financial report users, including an entity's federal grantor agencies. The audit determines if the financial statements and/or financial schedules are fairly presented; considers internal control over financial reporting and internal control over federal program compliance; determines compliance with requirements material to the financial statements and/or financial schedules; and assesses compliance with direct and material requirements of the major federal programs.

Financial Statements and Financial Schedules:

Auditor's Reports Issued

We issued unqualified opinions on the Department of Natural Resources' (DNR's) financial statements and financial schedules.

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Internal Control Over Financial Reporting

We identified significant deficiencies in internal control over financial reporting (Findings 1 through 3). We consider Finding 1 to be a material weakness.

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Noncompliance and Other Matters Material to the Financial Statements and/or Financial Schedules

We did not identify any instances of noncompliance applicable to the financial statements and/or financial schedules that are required to be reported under *Government Auditing Standards*. However, we did identify other instances of noncompliance (Findings 1 through 3).

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Federal Awards:

Auditor's Reports Issued on Compliance

We audited 7 programs as major programs and reported known questioned costs of \$20,879 and known and likely questioned costs of \$3,402,113. DNR expended a total of \$92.4 million in federal awards during the two-year period ended September 30, 2009. We issued 6 unqualified opinions and 1 qualified opinion. The opinions issued by major program are identified on the back of this summary.

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Internal Control Over Major Programs

We identified significant deficiencies related to internal control over major programs (Findings 4 through 7). We consider Finding 7 to be a material weakness. We also identified three recommendations repeated from our prior report for the two-year period ended September 30, 2007 (Findings 4, 6, and 7).

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Required Reporting of Noncompliance

We identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 (Findings 4 through 7).

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Systems of Accounting and Internal Control:

We determined that DNR was in substantial compliance with Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws*.

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Subsequent Event:

Executive Order No. 2009-45 created the Department of Natural Resources and Environment (DNRE), effective January 17, 2010. It transferred all of the authority, powers, duties, functions, responsibilities, records, personnel, property, equipment, and budgetary resources of DNR and the Department of Environmental Quality (DEQ) to DNRE by a Type II transfer and abolished DNR and DEQ. Accordingly, our recommendations in this report are directed to DNRE.

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We audited the following programs as major programs:

<u>CFDA Number</u>	<u>Program or Cluster Title</u>	<u>Compliance Opinion</u>
10.664	Cooperative Forestry Assistance	Unqualified
10.665	Schools and Roads Cluster	Unqualified
10.676	Forest Legacy Program	Unqualified
15.605 and 15.611	Fish and Wildlife Cluster	Unqualified
15.634	State Wildlife Grants	Unqualified
15.916	Outdoor Recreation - Acquisition, Development and Planning	Unqualified
97.012	Boating Safety Financial Assistance	Qualified

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



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Thomas H. McTavish, C.P.A.
Auditor General

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Deputy Auditor General



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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

June 30, 2010

Mr. Keith J. Charters, Chair
Natural Resources Commission
and
Ms. Rebecca A. Humphries, Director
Department of Natural Resources and Environment
Stevens T. Mason Building
Lansing, Michigan

Dear Mr. Charters and Ms. Humphries:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Natural Resources (DNR) for the period October 1, 2007 through September 30, 2009.

This report contains our report summary, our independent auditor's reports on the financial statements and on the financial schedules, and the DNR financial statements and financial schedules and supplemental financial statements and financial schedules. This report also contains our independent auditor's report on internal control over financial reporting and on compliance and other matters, our independent auditor's report 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, and our schedule of findings and questioned costs. In addition, this report contains DNR's summary schedule of prior audit findings, its corrective action plan, and a glossary of acronyms and terms.

Our findings and recommendations are contained in Section II and Section III of the schedule of findings and questioned costs. 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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INDEPENDENT AUDITOR'S REPORTS,
FINANCIAL STATEMENTS, AND
FINANCIAL SCHEDULES



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Independent Auditor's Report on the Financial Statements

Mr. Keith J. Charters, Chair
Natural Resources Commission
and
Ms. Rebecca A. Humphries, Director
Department of Natural Resources and Environment
Stevens T. Mason Building
Lansing, Michigan

Dear Mr. Charters and Ms. Humphries:

We have audited the accompanying financial statements of the Department of Natural Resources as of and for the fiscal years ended September 30, 2009 and September 30, 2008, as identified in the table of contents. 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 auditing standards generally accepted in the United States of America 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 1, the financial statements present only the special revenue, permanent, and capital projects funds administered by the Department of Natural Resources and do not purport to, and do not, present fairly the financial position of the State of Michigan or its special revenue, permanent, and capital projects funds as of September 30, 2009 and September 30, 2008 and the changes in financial position thereof for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

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' special revenue, permanent, and capital project funds as of September 30, 2009 and September 30, 2008 and the changes in financial position for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2010 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The 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 supplemental financial statements, as identified in the table of contents, 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

June 28, 2010



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THOMAS H. MCTAVISH, C.P.A.
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Independent Auditor's Report on the Financial Schedules

Mr. Keith J. Charters, Chair
Natural Resources Commission
and
Ms. Rebecca A. Humphries, Director
Department of Natural Resources and Environment
Stevens T. Mason Building
Lansing, Michigan

Dear Mr. Charters and Ms. Humphries:

We have audited the accompanying financial schedules of the Department of Natural Resources for the fiscal years ended September 30, 2009 and September 30, 2008, as identified in the table of contents. 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.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 1, the financial schedules present only the revenues and other financing sources and the sources and disposition of authorizations for the Department of Natural Resources' General Fund accounts, presented using the current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either the Department or the State's General Fund in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenues and other financing sources and the sources and disposition of authorizations of the Department of Natural Resources for the fiscal years ended September 30, 2009 and September 30, 2008 on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2010 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The 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*, is presented for purposes of additional analysis and is 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

June 28, 2010

DEPARTMENT OF NATURAL RESOURCES
Combined Balance Sheet
As of September 30
(In Thousands)

	Governmental Fund Types					
	Special Revenue Funds		Permanent Funds		Capital Projects Fund	
	2009	2008	2009	2008	2009	2008
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 90	\$ 53	\$	\$	\$	\$
Equity in common cash (Note 3)	84,750	107,790	178,381	193,681	1,881	1,862
Taxes, interest, and penalties receivable	191	170				
Amounts due from federal agencies	1,119	1,871				
Inventories	449	305				
Other current assets	8,363	6,455	8,376	15,312		
Total current assets	<u>\$ 94,962</u>	<u>\$ 116,642</u>	<u>\$ 186,758</u>	<u>\$ 208,993</u>	<u>\$ 1,881</u>	<u>\$ 1,862</u>
Investments - Long-term (Notes 2 and 3)	122,066	113,041	505,604	442,340		
Total assets	<u>\$ 217,028</u>	<u>\$ 229,683</u>	<u>\$ 692,361</u>	<u>\$ 651,333</u>	<u>\$ 1,881</u>	<u>\$ 1,862</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Warrants outstanding	\$ 376	\$ 476	\$ 144	\$ 2,440	\$	\$
Accounts payable and other liabilities	15,888	20,490	10,163	7,952		
Amounts due to other funds	1,691	1,228	92	54		
Deferred revenue	1,310	956				
Total liabilities	<u>\$ 19,265</u>	<u>\$ 23,150</u>	<u>\$ 10,399</u>	<u>\$ 10,446</u>	<u>\$ 0</u>	<u>\$ 0</u>
Fund balances:						
Reserves for:						
Budgetary carry-forwards:						
Encumbrances	\$ 15,250	\$ 18,876	\$ 27,533	\$ 20,960	\$	\$
Restricted revenues (Note 4)	21,797	25,193	1,429	2,887		
Multi-year projects	17,006	26,786	53,517	51,934		
Funds held as permanent investments (Note 2)	123,651	116,318	559,180	508,305		
Total reserved	<u>\$ 177,704</u>	<u>\$ 187,172</u>	<u>\$ 641,658</u>	<u>\$ 584,087</u>	<u>\$ 0</u>	<u>\$ 0</u>
Unreserved	20,059	19,360	40,304	56,800	1,881	1,862
Total fund balances	<u>\$ 197,763</u>	<u>\$ 206,533</u>	<u>\$ 681,962</u>	<u>\$ 640,887</u>	<u>\$ 1,881</u>	<u>\$ 1,862</u>
Total liabilities and fund balances	<u>\$ 217,028</u>	<u>\$ 229,683</u>	<u>\$ 692,361</u>	<u>\$ 651,333</u>	<u>\$ 1,881</u>	<u>\$ 1,862</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		Permanent Funds		Capital Projects Fund	
	2009	2008	2009	2008	2009	2008
REVENUES						
Taxes	\$ 222	\$ 257	\$	\$	\$	\$
From federal agencies	4,470	5,163				
From licenses and permits	113,757	108,036				
Miscellaneous	51,184	49,394	98,602	98,444	20	66
Total revenues	<u>\$ 169,633</u>	<u>\$ 162,850</u>	<u>\$ 98,602</u>	<u>\$ 98,444</u>	<u>\$ 20</u>	<u>\$ 66</u>
EXPENDITURES						
Current	\$ 175,097	\$ 177,832	\$ 17,780	\$ 16,974	\$	\$ 1
General government	1,665	1,406	490	4,838		
Capital outlay projects	15,135	15,791	39,114	24,870		213
Total expenditures	<u>\$ 191,897</u>	<u>\$ 195,030</u>	<u>\$ 57,385</u>	<u>\$ 46,682</u>	<u>\$ 0</u>	<u>\$ 214</u>
Excess of revenues over (under) expenditures	<u>\$ (22,264)</u>	<u>\$ (32,180)</u>	<u>\$ 41,217</u>	<u>\$ 51,762</u>	<u>\$ 20</u>	<u>\$ (148)</u>
OTHER FINANCING SOURCES (USES)						
Proceeds from sale of capital assets	\$ 5	\$	\$ 19	\$ 118	\$	\$
Transfers from other funds	27,371	28,938	10,000	10,000		
Transfers to other funds	(13,881)	(14,147)	(10,161)	(10,077)		
Total other financing sources (uses)	<u>\$ 13,494</u>	<u>\$ 14,791</u>	<u>\$ (142)</u>	<u>\$ 41</u>	<u>\$ 0</u>	<u>\$ 0</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>\$ (8,770)</u>	<u>\$ (17,389)</u>	<u>\$ 41,075</u>	<u>\$ 51,803</u>	<u>\$ 20</u>	<u>\$ (148)</u>
Fund balances - Beginning of fiscal year	<u>206,533</u>	<u>223,921</u>	<u>640,887</u>	<u>589,084</u>	<u>1,862</u>	<u>2,010</u>
Fund balances - End of fiscal year	<u>\$ 197,763</u>	<u>\$ 206,533</u>	<u>\$ 681,962</u>	<u>\$ 640,887</u>	<u>\$ 1,881</u>	<u>\$ 1,862</u>

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

DEPARTMENT OF NATURAL RESOURCES
Schedule of General Fund Revenues and Other Financing Sources
Fiscal Years Ended September 30
(In Thousands)

	2009	2008
REVENUES		
From federal agencies	\$ 43,737	\$ 40,130
From services	1,291	1,328
From licenses and permits	223	266
Miscellaneous	3,192	6,873
Total revenues	\$ 48,443	\$ 48,597
 OTHER FINANCING SOURCES		
Transfers from other funds	\$	\$ 31
Proceeds from sale of capital assets	1,548	4,354
Total other financing sources	\$ 1,548	\$ 4,385
Total revenues and other financing sources	\$ 49,991	\$ 52,982

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)

	<u>2009</u>	<u>2008</u>
SOURCES OF AUTHORIZATIONS (Note 5)		
General purpose appropriations	\$ 9,892	\$ 23,743
Balances carried forward	4,274	3,590
Restricted financing sources	50,521	49,297
Less: Intrafund expenditure reimbursements	<u>(710)</u>	<u>(738)</u>
 Total	 <u>\$ 63,977</u>	 <u>\$ 75,892</u>
 DISPOSITION OF AUTHORIZATIONS (Note 5)		
Gross expenditures and transfers out	\$ 60,352	\$ 72,292
Less: Intrafund expenditure reimbursements	<u>(710)</u>	<u>(738)</u>
Net expenditures and transfers out	<u>\$ 59,642</u>	<u>\$ 71,554</u>
Balances carried forward:		
Encumbrances	\$ 101	\$ 77
Restricted revenues - not authorized or used	4,231	4,197
Total balances carried forward	<u>\$ 4,332</u>	<u>\$ 4,274</u>
Balances lapsed	<u>\$ 3</u>	<u>\$ 64</u>
 Total	 <u>\$ 63,977</u>	 <u>\$ 75,892</u>

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

Notes to the Financial Statements and Financial Schedules

Note 1 Significant Accounting Policies

a. Reporting Entity - Financial Statements

The accompanying financial statements report the financial position and the changes in financial position of the following funds administered by the Department of Natural Resources (DNR) as of and for the fiscal years ended September 30, 2009 and September 30, 2008:

Special Revenue Funds

Michigan Conservation and Recreation Legacy Fund
Michigan Game and Fish Protection Trust Fund
Combined Recreation Bond Fund - Local Projects
Michigan Nongame Fish and Wildlife Trust Fund
Michigan Civilian Conservation Corps Endowment Fund
Forest Development Fund

Permanent Funds

Michigan Natural Resources Trust Fund
Michigan State Parks Endowment Fund

Capital Projects Fund

Combined Recreation Bond Fund - State Projects

These funds are a part of the State of Michigan's 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 DNR's General Fund financial transactions for the fiscal years ended September 30, 2009 and September 30, 2008.

c. Measurement Focus, Basis of Accounting, and Presentation

The financial statements and financial schedules contained in this report are presented using the current financial resources measurement focus

and the modified accrual basis of accounting as provided by accounting principles generally accepted in the United States of America (GAAP). Under the modified accrual basis of accounting, revenues are recognized as they become susceptible to accrual, generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred; however, certain expenditures related to long-term obligations are recorded only when payment is due and payable.

The accompanying financial statements present only the funds listed in Note 1a. Accordingly, they do not purport to, and do not, present fairly the financial position and changes in financial position of the State of Michigan or its special revenue, permanent, and capital projects funds in conformity with GAAP.

The accompanying financial schedules present only the revenues and other financing sources and the sources and disposition of authorizations for DNR's General Fund accounts. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either DNR or the State's General Fund in conformity with GAAP.

The *SOMCAFR* provides more extensive disclosures regarding the State's significant accounting policies; budgeting, budgetary control, and legal compliance; common cash; deposits and investments; pension benefits; other postemployment benefits; and interfund receivables and payables.

The financial transactions of DNR are recorded in the General Fund and in 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 financed by specific revenue sources that are legally restricted for specified purposes.

Permanent Funds: This fund group reports resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizenry, such as State park preservation.

Capital Projects Funds: This fund group accounts for the acquisition or construction of major State capital facilities financed by bond proceeds and commercial paper notes.

Note 2 Funds Restricted for Investments

By constitutional provision or statute, certain revenues have been restricted for the purpose of generating investment revenue and are not available for current spending. The balance sheet amounts on the line under "Fund balances" entitled "Reserves for funds held as permanent investments" include corpus amounts plus or minus amounts related to undistributed investment gains or losses. The State Treasurer is responsible for managing these investments. The State Treasurer, by agreement with DNR, invests amounts restricted for investment. DNR provides asset allocation recommendations to the State Treasurer with respect to amounts to be held in the form of fixed income and equity portfolios. DNR also implemented distribution plans for the various funds to determine when the fair value gains or losses are made available for program appropriation and spending.

Equities: Beginning in fiscal year 2002-03 for the Michigan Natural Resources Trust Fund and in fiscal year 2004-05 for all other funds with equity investments, DNR implemented investment distribution plans based upon a fixed distribution of earnings (for example, 5% of the equities portfolio). Excess earnings are retained in revenue stabilization reserves to be used in years when actual returns are less than that percentage. Prior to that time, only realized gains or losses were recognized for distribution purposes. All equity investments have been in the form of market index mutual funds.

Fixed income: For the Michigan Natural Resources Trust Fund, distributions of earnings on the fixed income portfolio are made on the same basis as the equities portfolio. For all other funds, distributions of earnings on the fixed income portfolio are based upon interest income, plus or minus gains and losses realized upon redemption. This is based upon the assumption of DNR and past practice of the Michigan Department of Treasury that these

investments will generally be held to maturity (unless called) for the purpose of generating interest. Because this portfolio is not actively traded, fair value gains and losses are considered temporary and distributions are based upon interest income.

Note 3 Deposits and Investments

DNR's deposits and investments are managed by the State Treasurer. DNR's deposits are included in the State of Michigan's common cash pool. "Equity in common cash" represents an interest in the State's common cash pool, which is used by many State funds as a short-term investment vehicle. All DNR funds are included in the common cash pool. The investment authority for the common cash pool is found in Sections 21.141 - 21.147 of the *Michigan Compiled Laws*. DNR has the following account and funds that held investments and earned investment income during fiscal years 2008-09 and 2007-08:

- Game and Fish Protection Account
- Michigan Game and Fish Protection Trust Fund
- Michigan Nongame Fish and Wildlife Trust Fund
- Michigan Natural Resources Trust Fund
- Michigan State Parks Endowment Fund
- Michigan Civilian Conservation Corps Endowment Fund

Investments are classified on the balance sheet according to investment strategy rather than their stated maturity date.

a. Common Cash Deposits

	As of September 30	
	2009	2008
Equity in common cash:		
Special revenue funds	\$ 84,749,795	\$107,789,577
Permanent funds	\$178,381,431	\$193,681,075
Capital projects fund	\$ 1,881,448	\$ 1,861,927

Governmental accounting and financial reporting standards require certain disclosures related to custodial credit risk and foreign currency risk for

deposits. Custodial credit risk for deposits is the risk that, in the event of a depository financial institution failure, DNR's deposits may not be recovered. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the DNR fund's name. The State Treasurer's policy requires the following criteria to lessen the custodial credit risk: (1) all financial institutions holding the State's money must pledge collateral equal to the amount of the account balance for all demand and time deposits to secure the State funds; (2) a bank, savings and loan association, or credit union holding State funds must be organized under the law of Michigan or federal law and maintain a principal office or branch office in the State of Michigan; and (3) no deposit in any financial organization may be in excess of 50% of the net worth of the organization.

Foreign currency risk for deposits is the risk that changes in exchange rates will adversely affect the fair value of deposits. Section 487.714 of the *Michigan Compiled Laws* requires State deposits to be held in a financial institution that maintains a principal office or branch office located in the State of Michigan. The State had no common cash deposits subject to foreign currency risk at September 30, 2009 and September 30, 2008.

b. Investments

Governmental accounting and financial reporting standards also require disclosures for investments for interest rate risk, custodial credit risk, credit risk, foreign currency risk, and concentration of credit risk:

- (1) Interest rate risk: Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The State Treasurer's policy states that cash equivalents are invested in short-term fixed income securities with an average weighted maturity of less than one year to provide liquidity and safety of principal from capital market and default risk. The State Treasurer does not have a policy regarding interest rate risk for long-term debt investments.

As of September 30, 2009, the average maturities of investments were as follows:

Investment Type	Fair Value	Investment Maturities			
		Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years
Special revenue funds:					
Mutual funds*	\$ 35,190,776	\$	\$	\$	\$
Corporate bonds	85,538,935	5,027,510	20,659,732	59,851,693	
Government securities	1,336,490				1,336,490
Permanent funds:					
Mutual funds*	114,618,588				
Corporate bonds	362,581,561	20,110,040	84,006,160	253,174,736	5,290,625
Government securities	28,403,649			3,001,574	25,402,075
Total investments	<u>\$627,669,999</u>	<u>\$25,137,550</u>	<u>\$104,665,892</u>	<u>\$316,028,003</u>	<u>\$32,029,190</u>

As of September 30, 2008, the average maturities of investments were as follows:

Investment Type	Fair Value	Investment Maturities			
		Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years
Special revenue funds:					
Mutual funds*	\$ 41,602,703	\$	\$	\$	\$
Corporate bonds	32,232,328		11,196,492	20,143,014	892,822
Government securities	39,205,573		9,426,812	23,183,258	6,595,503
Permanent funds:					
Mutual funds*	103,152,568				
Corporate bonds	124,628,070		54,949,019	51,191,419	18,487,632
Government securities	214,559,276		44,206,913	110,038,730	60,313,633
Total investments	<u>\$555,380,518</u>	<u>\$ 0</u>	<u>\$119,779,236</u>	<u>\$204,556,421</u>	<u>\$ 86,289,590</u>

* Mutual funds have no fixed income or duration and, therefore, are not segmented for time.

- (2) Custodial credit risk: Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the DNR funds will not be able to recover the value of their investments

or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the State on behalf of the DNR funds, and are held either by the counterparty or by the counterparty's trust department or agent but not in the State's name. All investments of the DNR funds were insured or registered or were held by the State or its agent in the State's name. The State Treasurer does not have a policy for limiting custodial credit risk.

- (3) Credit risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As required by Section 38.1137(1)(d) of the *Michigan Compiled Laws*, all long-term fixed income investments, unless unrated, must be investment grade at the time of purchase, unless specific requirements are met. Investment grade, as defined in Section 38.1132c of the *Michigan Compiled Laws*, includes investments in the top four major grades as determined by two national rating services. The State Treasurer's policy is to use Standard & Poor's (AAA, AA, A, BBB) and Moody's Investors Service (Aaa, Aa, A, Baa).

As of September 30, 2009, the credit quality ratings of debt securities were as follows:

Investment Type	Fair Value	Standard & Poor's	Fair Value	Moody's Investors Service
Special revenue funds:				
Corporate bonds	\$ 19,519,348	AA	\$ 16,124,673	Aa
	63,313,105	A	69,414,262	A
	2,706,482	BBB		
Permanent funds:				
Corporate bonds	101,890,213	AA	76,590,967	Aa
	257,984,865	A	285,990,594	A
	2,706,483	BBB		
Government securities - U.S. agencies	3,001,574	AAA	3,001,574	Aaa
Total	\$451,122,070		\$451,122,070	

As of September 30, 2008, the credit quality ratings of debt securities were as follows:

Investment Type	Fair Value	Standard & Poor's	Fair Value	Moody's Investors Service
Special revenue funds:				
Corporate bonds	\$ 6,875,675	AAA	\$ 6,875,675	Aaa
	2,121,455	AA	7,291,480	Aa
	22,522,935	A	17,352,910	A
	712,263	BBB	712,263	Baa
Government securities - U.S. agencies	37,494,906	AAA	37,494,906	Aaa
Permanent funds:				
Corporate bonds	38,454,277	AAA	38,454,277	Aaa
	22,021,364	AA	12,124,204	Aa
	53,028,031	A	62,925,191	A
	11,124,399	BBB	11,124,399	Baa
Government securities - U.S. agencies	181,155,881	AAA	181,155,881	Aaa
Total	<u>\$375,511,186</u>		<u>\$375,511,186</u>	

(4) Foreign currency risk: Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the fair value of investments. As of September 30, 2009 and September 30, 2008, the DNR funds did not have any investments in foreign securities.

(5) Concentration of credit risk: Concentration of credit risk is the risk of loss attributable to the magnitude of DNR's investments with a single issuer. As of September 30, 2009, DNR had the following investments that represent 5% or more of total investments:

Name of Issuer	Amount	Percent of Investments
Special revenue funds:		
Vanguard Institutional Index Fund - Institutional shares	\$ 34,752,577	28%
Permanent funds:		
Vanguard Institutional Index Fund - Institutional shares	\$ 107,797,914	21%
General Electric Capital Corporation	\$ 32,254,042	6%
Government National Mortgage Association - Mortgage backed securities	\$ 25,402,075	5%

As of September 30, 2008, DNR had the following investments that represent 5% or more of total investments:

Name of Issuer	Amount	Percent of Investments
Special revenue funds:		
Vanguard Institutional Index Fund - Institutional shares	\$ 40,736,378	36%
Federal Farm Credit Bank	\$ 20,597,367	18%
Federal Home Loan Bank	\$ 16,408,491	15%
Permanent funds:		
Federal Farm Credit Bank	\$124,537,587	28%
Vanguard Institutional Index Fund - Institutional shares	\$ 97,450,229	22%
Federal Home Loan Bank	\$ 44,638,663	10%
Government National Mortgage Association - Mortgage backed securities	\$ 33,403,394	8%
General Electric Capital Corporation	\$ 29,765,674	7%

c. Securities Lending Transactions

The State Treasurer used DNR investment funds to participate in a security lending program during fiscal year 2007-08. Under the authority of Section 38.1133 of the *Michigan Compiled Laws*, the State lent securities to broker-dealers and other entities for collateral that would be returned for the same securities in the future. The custodian of the securities would not be liable for any losses unless there was negligence or willful misconduct on its part. State statutes allow the State to participate in securities lending transactions, via a securities lending authorization agreement, authorizing the agent bank to lend its securities to broker-dealers and banks, pursuant to a form of loan agreement.

During fiscal year 2007-08, the agent bank, at the direction of the State Treasurer, lent securities of the DNR funds and received cash (United States), as collateral. Borrowers were required to deliver collateral for each loan equal to: 1) in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments, 102% of the fair value of the loaned securities; or 2) in the case of loan securities not denominated in United States dollars or whose primary trading market

was not located in the United States, 105% of the fair value of the loaned securities.

The State Treasurer did not impose any restrictions on the amount of the loans that the agent bank made on its behalf. The agent bank indemnified the State by agreeing to purchase replacement securities or return cash collateral in the event that the borrower failed to return loaned securities or pay distributions thereon, due to the borrower's insolvency. During the fiscal year, there was one such failure by a borrower, Lehman Brothers, Inc. (September 2008). However, there were no losses to DNR resulting from the default of the borrower.

During fiscal year 2007-08, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in a collective investment pool along with the cash collateral of other qualified and nonqualified tax-exempt plan lenders. As of September 30, 2008, the investment pool had an average duration of 31 days and an average weighted maturity of 3.3 years. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. At September 30, 2008, the DNR funds had no credit risk exposure from borrowers. Effective September 30, 2008, the State Treasurer reclassified the securities lending transactions including the cash collateral for securities lent from the DNR funds to the State of Michigan pension trust funds. The State Treasurer did not participate in any securities lending transactions with DNR funds during fiscal year 2008-09.

d. Unrealized Investment Gain/(Loss)

DNR's investment balances at year-end include unrealized gains and losses. DNR's unrealized investment income increased by \$5,601,235 for special revenue funds and by \$25,339,674 for permanent funds in fiscal year 2008-09 and decreased by \$9,408,488 for special revenue funds and by \$24,126,861 for permanent funds in fiscal year 2007-08 to reflect the change in fair value of investments.

Note 4 Fund Balance Reserves for Restricted Revenues

The line entitled "Restricted revenues" under "Fund balances: Reserves for budgetary carry-forwards" for special revenue funds on the combined balance sheet includes the following fund balances (in thousands) reserved for specific purposes:

	Fiscal Year	
	2008-09	2007-08
<u>Michigan Conservation and Recreation Legacy Fund</u>		
Deer Habitat Improvement	\$1,090	\$1,768
Fisheries Settlement	1,805	1,807
Wildlife Resource Protection	249	408
Waterfowl Fees	2,291	2,186
Turkey Program	1,180	1,605
Youth Hunting and Fishing Education Outreach	207	209
Pittman-Robertson Program	633	486
Dingell-Johnson Program	94	78
Marine Safety Program	273	899
Pittman-Robertson Hunter Education Program	252	181
Forest Recreation Account	137	76
Recreation Improvement Account	1,570	1,876
Off-Road Vehicle Trail Improvement	4,821	5,268
ORV Safety Education	318	352
Snowmobile Registration Fees	191	55
Snowmobile Trail Improvement	6,517	7,939
Permanent Snowmobile Trail Easement	168	0
	<u> </u>	<u> </u>
Total restricted revenue reserves	<u>\$21,797</u>	<u>\$25,193</u>

Note 5 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 appropriations and any supplemental appropriations that are financed by General Fund/general purpose revenues.

- b. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenues - authorized, and restricted revenues - not authorized or used 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 revenues - not authorized or used.
- c. Restricted financing sources: Collections of restricted revenues, restricted transfers, and restricted intrafund expenditure reimbursements used to finance 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 revenues - authorized or restricted revenues - not authorized or used. Significant sources for DNR in fiscal year 2008-09 included \$22.9 million in federal fish and wildlife restoration funds, \$11.0 million in federal forest service funds, and \$6.3 million in federal homeland security funds. Significant sources for DNR in fiscal year 2007-08 included \$21.7 million in federal fish and wildlife restoration funds, \$7.9 million in federal forest service funds, and \$7.0 million in federal homeland security funds.
- d. Intrafund expenditure reimbursements: Funding from other General Fund departments to finance a program or a portion of a program that is the responsibility of the receiving department.
- e. Encumbrances: Authorizations carried forward to finance payments for goods or services ordered during the fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general purpose appropriations.
- f. Restricted revenues - not authorized or used: Revenues that, by statute, are restricted for use to a particular program or activity. Generally, the expenditure of the restricted revenues is subject to annual legislative appropriation. Significant carry-forwards of this type as of September 30, 2009 were \$1.2 million of aircraft fees and \$1.7 million of private funds.

Significant carry-forwards of this type as of September 30, 2008 were \$1.2 million of aircraft fees and \$1.3 million of private funds.

- g. Balances lapsed: Authorizations that were unexpended or unobligated at the end of the fiscal year. These amounts are available for legislative appropriation in the subsequent fiscal year.

Note 6 Interfund Commitments

In fiscal year 2002-03, Act 746, P.A. 2002, required the transfer of \$7.8 million from the Michigan State Waterways Fund (now accounted for within the Michigan Conservation and Recreation Legacy Fund) to the General Fund. The Act states that, in the future, the General Fund is to provide reimbursement. Interfund receivables and payables are not recorded for this commitment because there is no repayment schedule and the repayment is considered long-term and budgetary in nature.

Note 7 Subsequent Events

Executive Order No. 2009-36 transferred all of the authority, powers, duties, functions, responsibilities, records, personnel, property, equipment, and budgetary resources, of the Department of History, Arts and Libraries to various State departments and agencies by Type I, II, and III transfers, effective October, 1, 2009, and abolished the Department. The programs and related financial balances transferred to the DNR included the Mackinac Island State Park Commission and activities and commissions related to historical programs, including the Michigan Historical Museum.

Executive Order No. 2009-45 created the Department of Natural Resources and Environment (DNRE), effective January 17, 2010. It transferred all of the authority, powers, duties, functions, responsibilities, records, personnel, property, equipment, and budgetary resources of DNR and the Department of Environmental Quality (DEQ) to DNRE by a Type II transfer and abolished DNR and DEQ.

On May 4, 2010, DNR held an oil and gas lease auction on State-owned land, which resulted in proceeds of \$178.4 million. This is by far the largest amount of proceeds from such a sale and will increase the amounts held for permanent investment in the Michigan Natural Resources Trust Fund by approximately \$76 million and the Game and Fish Protection Trust Fund by approximately

\$64 million. The Michigan Natural Resources Trust Fund has a \$500 million investment corpus cap, at which point such oil, gas, and mineral revenues will be redirected by the Michigan Constitution to the Michigan State Park Endowment Fund. The Michigan Natural Resources Trust Fund corpus was at \$393.8 million at September 30, 2009, therefore, the proceeds from the May 4, 2010 auction will put the corpus balance significantly closer to the \$500 million cap.

SUPPLEMENTAL
FINANCIAL STATEMENTS AND
FINANCIAL SCHEDULE

Descriptions of Special Revenue Funds

MICHIGAN CONSERVATION AND RECREATION LEGACY FUND

The Legacy Fund was created by Article IX, Section 40 of the Michigan Constitution, an amendment approved by voters in November 2006. The purpose of the amendment was to constitutionally prevent the diversion of certain funds and revenues for purposes other than those for which they were created. Section 40 created the following accounts within the Legacy Fund: Forest Recreation, Game and Fish Protection, Off-Road Vehicle, Recreation Improvement, Snowmobile, State Park Improvement, and Waterways.

The implementing legislation related to this amendment, found in Sections 324.2002 - 324.2035 of the *Michigan Compiled Laws*, transferred a number of special revenue funds and certain restrictively financed activities within the General Fund to the Legacy Fund. The following special revenue funds were transferred into the Legacy Fund: Game and Fish Protection Fund, Michigan State Waterways Fund, Marine Safety Fund, and State Park Improvement Fund. The restrictively financed activities transferred into the Legacy Fund from the General Fund were related to various outdoor recreation activities, including snowmobiles, off-road vehicles, recreation trails, and State forest recreation.

Financing consists primarily of hunting and fishing licenses; camping and park entrance fees; 2% of gasoline taxes dedicated for boating, snowmobiling, off-road vehicles, and other trails; watercraft and snowmobile registration fees; and trail use permits. The Legacy Fund also receives funding from the Michigan Game and Fish Protection Trust Fund. Expenditures are limited to those activities specified in Section 40 and include forest recreation activities, wildlife and fisheries programs, off-road vehicle and snowmobile trails and facilities, State parks and recreation areas, improvement of lake harbors and inland waterways, and water safety education programs.

MICHIGAN GAME AND FISH PROTECTION TRUST FUND (formerly known as the Game and Fish Protection Trust Fund)

The former Game and Fish Protection Trust Fund was established in 1986 to restrict certain assets for the purpose of generating interest and earnings for transfer to the former Game and Fish Protection Fund (now accounted for within the Michigan Conservation and Recreation Legacy Fund). Article IX, Section 41 of the Michigan

Constitution, an amendment approved by voters in November 2006, further protected these assets by creating the Michigan Game and Fish Protection Trust Fund.

The Fund operates under Sections 324.43702 - 324.43704 of the *Michigan Compiled Laws*. The Legislature may appropriate up to \$6 million annually for use by the Game and Fish Protection Account of the Michigan Conservation and Recreation Legacy Fund. Mineral royalties from lands acquired by the Game and Fish Protection Account; direct sale proceeds; and other revenues, which, by statute, are retained for permanent investment, provide additional investment funding.

COMBINED RECREATION BOND FUND - LOCAL PROJECTS

Established in 1988, this Fund operates under Sections 324.19606 - 324.19612, 324.19615, 324.71303, and 324.71506 - 324.71508 of the *Michigan Compiled Laws*. The residual balances in this Fund reflect proceeds and investment earnings remaining from two bond packages: \$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, and \$50 million of general obligation bonds approved by voters in November of 1998, as part of a \$675 million bond package known as the "Clean Michigan Initiative."

Proceeds from the 1988 bond package provided grants and loans to local units of government in the amounts of \$65 million for local recreation projects and \$5 million to discourage development of open space and underdeveloped lands. Proceeds from the 1998 bond package also provided grants to local units of government for local recreation projects pursuant to Section 324.71602 of the *Michigan Compiled Laws*.

MICHIGAN NONGAME FISH AND WILDLIFE TRUST FUND (formerly known as the Michigan Nongame Fish and Wildlife Fund)

The former Michigan Nongame Fish and Wildlife Fund was established in 1983 to finance research and management of nongame fish and wildlife, designated endangered species, and designated plant species of this State. Article IX, Section 42 of the Michigan Constitution, an amendment approved by voters in November 2006, further protected these assets by creating the Michigan Nongame Fish and Wildlife Trust Fund.

The Fund operates under Sections 324.43902 - 324.43907 of the *Michigan Compiled Laws*. The Fund may receive transfers from other funds, donations, investment income, and revenue from specialty license plate sales.

MICHIGAN CIVILIAN CONSERVATION CORPS ENDOWMENT FUND

Section 409.312a of the *Michigan Compiled Laws* established this Fund 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.

FOREST DEVELOPMENT FUND

This Fund was established in 1993, along with the Michigan Forest Finance Authority, and operates under Section 324.50507 of the *Michigan Compiled Laws*. The primary revenue source of the Fund is timber revenue for State forest lands. Expenditures from the Fund are for forest management activities and forest fire protection. The Authority is authorized to issue, but thus far has not issued, bonds.

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

	Michigan Conservation and Recreation Legacy Fund		Michigan Game and Fish Protection Trust Fund		Combined Recreation Bond Fund - Local Projects		Michigan Nongame Fish and Wildlife Trust Fund	
	2009	2008	2009	2008	2009	2008	2009	2008
ASSETS								
Current assets:								
Cash	\$ 69	\$ 48	\$ 1	\$	\$	\$	\$	\$
Equity in common cash	68,025	85,370	5,930	7,134	2,147	2,186	489	460
Taxes, interest, and penalties receivable	191	170						
Amounts due from federal agencies	970	1,534						
Inventories	449	305						
Other current assets	6,838	4,179	1,379	2,111			52	45
Total current assets	<u>\$76,543</u>	<u>\$91,606</u>	<u>\$ 7,309</u>	<u>\$ 9,245</u>	<u>\$2,147</u>	<u>\$2,186</u>	<u>\$ 541</u>	<u>\$ 505</u>
Investments - Long-term	1,675	1,672	114,349	105,568			6,042	5,800
Total assets	<u>\$78,218</u>	<u>\$93,278</u>	<u>\$121,659</u>	<u>\$114,813</u>	<u>\$2,147</u>	<u>\$2,186</u>	<u>\$6,583</u>	<u>\$6,305</u>
LIABILITIES AND FUND BALANCES								
Liabilities:								
Warrants outstanding	\$ 345	\$ 363	\$	\$ 41	\$	\$	\$	\$ 1
Accounts payable and other liabilities	13,381	17,485		6	1	37	64	39
Amounts due to other funds	1,308	1,005					3	3
Deferred revenue	1,069	835						
Total liabilities	<u>\$16,102</u>	<u>\$19,688</u>	<u>\$ 0</u>	<u>\$ 47</u>	<u>\$ 1</u>	<u>\$ 37</u>	<u>\$ 67</u>	<u>\$ 43</u>
Fund balances:								
Reserves for:								
Budgetary carry-forwards:								
Encumbrances	\$14,653	\$17,899	\$	\$	\$	\$	\$ 18	\$ 124
Restricted revenues	21,797	25,193						
Multi-year projects	15,078	25,476						
Funds held as permanent investments	1,747	1,658	115,659	108,766			6,245	5,895
Total reserved	<u>\$53,274</u>	<u>\$70,225</u>	<u>\$115,659</u>	<u>\$108,766</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$6,263</u>	<u>\$6,019</u>
Unreserved	8,842	3,365	6,000	6,000	2,146	2,149	253	243
Total fund balances	<u>\$62,115</u>	<u>\$73,590</u>	<u>\$121,659</u>	<u>\$114,766</u>	<u>\$2,146</u>	<u>\$2,149</u>	<u>\$6,516</u>	<u>\$6,262</u>
Total liabilities and fund balances	<u>\$78,218</u>	<u>\$93,278</u>	<u>\$121,659</u>	<u>\$114,813</u>	<u>\$2,147</u>	<u>\$2,186</u>	<u>\$6,583</u>	<u>\$6,305</u>

Forest Development Fund		Michigan Civilian Conservation Corps Endowment Fund		Combined Totals	
2009	2008	2009	2008	2009	2008
\$ 19	\$ 4	\$	\$	\$ 90	\$ 53
7,841	11,821	318	818	84,750	107,790
				191	170
149	337			1,119	1,871
				449	305
93	120	2		8,363	6,455
<u>\$8,102</u>	<u>\$12,282</u>	<u>\$ 320</u>	<u>\$ 818</u>	<u>\$ 94,962</u>	<u>\$116,642</u>
				122,066	113,041
<u>\$8,102</u>	<u>\$12,282</u>	<u>\$ 320</u>	<u>\$ 818</u>	<u>\$217,028</u>	<u>\$229,683</u>

\$ 30	\$ 70	\$ 1	\$ 1	\$ 376	\$ 476
2,411	2,882	31	41	15,888	20,490
376	219	3	1	1,691	1,228
241	121			1,310	956
<u>\$3,059</u>	<u>\$ 3,291</u>	<u>\$ 34</u>	<u>\$ 43</u>	<u>\$ 19,265</u>	<u>\$ 23,150</u>

\$ 580	\$ 852	\$	\$	\$ 15,250	\$ 18,876
				21,797	25,193
1,929	1,310			17,006	26,786
				123,651	116,318
<u>\$2,509</u>	<u>\$ 2,162</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$177,704</u>	<u>\$187,172</u>
2,534	6,829	285	775	20,059	19,360
<u>\$5,042</u>	<u>\$ 8,991</u>	<u>\$ 285</u>	<u>\$ 775</u>	<u>\$197,763</u>	<u>\$206,533</u>
<u>\$8,102</u>	<u>\$12,282</u>	<u>\$ 320</u>	<u>\$ 818</u>	<u>\$217,028</u>	<u>\$229,683</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)

	Michigan Conservation and Recreation Legacy Fund		Michigan Game and Fish Protection Trust Fund		Combined Recreation Bond Fund - Local Projects		Michigan Nongame Fish and Wildlife Trust Fund	
	2009	2008	2009	2008	2009	2008	2009	2008
REVENUES								
Taxes	\$ 222	\$ 257	\$	\$	\$	\$	\$	\$
From federal agencies	4,372	4,896						
From licenses and permits	113,756	108,034						
Miscellaneous	5,360	6,641	17,721	10,857	23	71	858	446
Total revenues	<u>\$ 123,710</u>	<u>\$ 119,828</u>	<u>\$ 17,721</u>	<u>\$ 10,857</u>	<u>\$ 23</u>	<u>\$ 71</u>	<u>\$ 858</u>	<u>\$ 446</u>
EXPENDITURES								
Current	\$ 143,535	\$ 149,462	\$ 62	\$ 68	\$ 25	\$ 47	\$ 597	\$ 598
General government	1,663	5	2	1,149				71
Capital outlay projects	14,612	15,325						
Total expenditures	<u>\$ 159,811</u>	<u>\$ 164,792</u>	<u>\$ 63</u>	<u>\$ 1,217</u>	<u>\$ 25</u>	<u>\$ 47</u>	<u>\$ 598</u>	<u>\$ 668</u>
Excess of revenues over (under) expenditures	<u>\$ (36,101)</u>	<u>\$ (44,964)</u>	<u>\$ 17,658</u>	<u>\$ 9,640</u>	<u>\$ (2)</u>	<u>\$ 24</u>	<u>\$ 261</u>	<u>\$ (222)</u>
OTHER FINANCING SOURCES (USES)								
Proceeds from sale of capital assets	\$ 5	\$	\$	\$	\$	\$	\$	\$
Transfers from other funds	27,371	28,938						
Transfers to other funds	(2,749)	(1,958)	(10,766)	(12,007)	(1)		(7)	(3)
Total other financing sources (uses)	<u>\$ 24,626</u>	<u>\$ 26,980</u>	<u>\$ (10,766)</u>	<u>\$ (12,007)</u>	<u>\$ (1)</u>	<u>\$ 0</u>	<u>\$ (7)</u>	<u>\$ (3)</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>\$ (11,474)</u>	<u>\$ (17,984)</u>	<u>\$ 6,892</u>	<u>\$ (2,366)</u>	<u>\$ (3)</u>	<u>\$ 24</u>	<u>\$ 254</u>	<u>\$ (225)</u>
Fund balances - Beginning of fiscal year	73,590	91,574	114,766	117,132	2,149	2,125	6,262	6,487
Fund balances - End of fiscal year	<u>\$ 62,115</u>	<u>\$ 73,590</u>	<u>\$ 121,659</u>	<u>\$ 114,766</u>	<u>\$ 2,146</u>	<u>\$ 2,149</u>	<u>\$ 6,516</u>	<u>\$ 6,262</u>

Forest Development Fund		Michigan Civilian Conservation Corps Endowment Fund		Combined Totals	
2009	2008	2009	2008	2009	2008
\$	\$	\$	\$	\$ 222	\$ 257
98	267			4,470	5,163
1	2			113,757	108,036
27,214	30,296	7	1,083	51,184	49,394
<u>\$ 27,314</u>	<u>\$ 30,565</u>	<u>\$ 7</u>	<u>\$ 1,083</u>	<u>\$ 169,633</u>	<u>\$ 162,850</u>
\$ 30,383	\$ 27,187	\$ 495	\$ 471	\$ 175,097	\$ 177,832
			182	1,665	1,406
523	467			15,135	15,791
<u>\$ 30,906</u>	<u>\$ 27,654</u>	<u>\$ 495</u>	<u>\$ 652</u>	<u>\$ 191,897</u>	<u>\$ 195,030</u>
<u>\$ (3,592)</u>	<u>\$ 2,911</u>	<u>\$ (488)</u>	<u>\$ 431</u>	<u>\$ (22,264)</u>	<u>\$ (32,180)</u>
\$	\$	\$	\$	\$ 5	\$
				27,371	28,938
(357)	(177)	(2)	(2)	(13,881)	(14,147)
<u>\$ (357)</u>	<u>\$ (177)</u>	<u>\$ (2)</u>	<u>\$ (2)</u>	<u>\$ 13,494</u>	<u>\$ 14,791</u>
\$ (3,949)	\$ 2,734	\$ (490)	\$ 429	\$ (8,770)	\$ (17,389)
8,991	6,257	775	346	206,533	223,921
<u>\$ 5,042</u>	<u>\$ 8,991</u>	<u>\$ 285</u>	<u>\$ 775</u>	<u>\$ 197,763</u>	<u>\$ 206,533</u>

Descriptions of Permanent Funds

MICHIGAN NATURAL RESOURCES TRUST FUND

Article IX, Section 35 of the Michigan Constitution created the Michigan Natural Resources Trust Fund. The Fund, established in 1985, operates under Sections 324.1901 - 324.1910 of the *Michigan Compiled Laws*. Most royalty revenues (i.e., rentals, royalties, and other revenues derived from mineral, coal, oil, and gas interests on State-owned land) are credited to the Fund. A portion (50%, up to \$10 million per year) of these revenues are transferred to the Michigan State Parks Endowment Fund (MSPEF). The State Treasurer directs the investments of the Fund, which include fixed income and equity investments.

The interest and investment earnings and one-third of royalty revenues are available for appropriation. Appropriations are used to fund grants to local units of government as well as State agencies to acquire land or develop public recreation facilities and to fund payments in lieu of property taxes on State lands acquired by the Fund. Two-thirds of royalty revenues, less the portion transferred to MSPEF, are added to the accumulated principal until the accumulated principal reaches \$500 million. After that time, all royalties will be deposited into MSPEF and only investment earnings and interest will be available for appropriation in this Fund.

MICHIGAN STATE PARKS ENDOWMENT FUND

Established in 1994, this Fund is governed by the provisions of Section 324.74119 of the *Michigan Compiled Laws* to finance operations, maintenance, and capital improvements at Michigan State parks. The voters approved a constitutional amendment in August 2002 that changed the distribution formula and allows the State Treasurer to invest in equity securities and other types of investments.

The Fund was established with a \$40 million transfer from the sale of the Accident Fund of Michigan to provide funds for permanent investment. By statute, up to \$10 million per year of revenues from oil and gas bonuses, rentals, and royalties from State-owned land are deposited into this Fund until the Michigan Natural Resources Trust Fund reaches an accumulated principal of \$500 million after which time all revenue previously going to the Michigan Natural Resources Trust Fund will go to this Fund. The Fund's investment reserve will be capped at \$800 million. The Legislature is limited to appropriating no more than 50% of the amount transferred from the Michigan Natural Resources Trust Fund plus interest and investment earnings. 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, annually adjusted for inflation, may be expended.

DEPARTMENT OF NATURAL RESOURCES

Combining Balance Sheet

Permanent Funds

As of September 30

(In Thousands)

	Michigan Natural Resources Trust Fund		Michigan State Parks Endowment Fund		Total	
	2009	2008	2009	2008	2009	2008
ASSETS						
Current assets:						
Equity in common cash	\$ 161,941	\$ 180,365	\$ 16,441	\$ 13,316	\$ 178,381	\$ 193,681
Other current assets	7,434	14,104	942	1,208	8,376	15,312
Total current assets	<u>\$ 169,375</u>	<u>\$ 194,469</u>	<u>\$ 17,383</u>	<u>\$ 14,524</u>	<u>\$ 186,758</u>	<u>\$ 208,993</u>
Investments - Long-term	<u>374,963</u>	<u>315,123</u>	<u>130,641</u>	<u>127,217</u>	<u>505,604</u>	<u>442,340</u>
Total assets	<u>\$ 544,338</u>	<u>\$ 509,592</u>	<u>\$ 148,024</u>	<u>\$ 141,741</u>	<u>\$ 692,361</u>	<u>\$ 651,333</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Warrants outstanding	\$ 109	\$ 2,379	\$ 35	\$ 61	\$ 144	\$ 2,440
Accounts payable and other liabilities	9,041	6,928	1,123	1,025	10,163	7,952
Amounts due to other funds	28	21	65	34	92	54
Total liabilities	<u>\$ 9,177</u>	<u>\$ 9,327</u>	<u>\$ 1,222</u>	<u>\$ 1,119</u>	<u>\$ 10,399</u>	<u>\$ 10,446</u>
Fund balances:						
Reserves for:						
Budgetary carry-forwards:						
Encumbrances	\$ 27,493	\$ 20,828	\$ 39	\$ 132	\$ 27,533	\$ 20,960
Restricted revenues			1,429	2,887	1,429	2,887
Multi-year projects	53,517	51,835		99	53,517	51,934
Funds held as permanent investments	<u>418,491</u>	<u>379,049</u>	<u>140,690</u>	<u>129,256</u>	<u>559,180</u>	<u>508,305</u>
Total reserved	<u>\$ 499,501</u>	<u>\$ 451,712</u>	<u>\$ 142,157</u>	<u>\$ 132,375</u>	<u>\$ 641,658</u>	<u>\$ 584,087</u>
Unreserved	<u>35,660</u>	<u>48,553</u>	<u>4,644</u>	<u>8,247</u>	<u>40,304</u>	<u>56,800</u>
Total fund balances	<u>\$ 535,161</u>	<u>\$ 500,265</u>	<u>\$ 146,801</u>	<u>\$ 140,622</u>	<u>\$ 681,962</u>	<u>\$ 640,887</u>
Total liabilities and fund balances	<u>\$ 544,338</u>	<u>\$ 509,592</u>	<u>\$ 148,024</u>	<u>\$ 141,741</u>	<u>\$ 692,361</u>	<u>\$ 651,333</u>

DEPARTMENT OF NATURAL RESOURCES
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Permanent Funds
Fiscal Years Ended September 30
(In Thousands)

	Michigan Natural Resources Trust Fund		Michigan State Parks Endowment Fund		Totals	
	2009	2008	2009	2008	2009	2008
REVENUES						
Miscellaneous	\$ 86,964	\$ 97,240	\$ 11,638	\$ 1,203	\$ 98,602	\$ 98,444
Total revenues	<u>\$ 86,964</u>	<u>\$ 97,240</u>	<u>\$ 11,638</u>	<u>\$ 1,203</u>	<u>\$ 98,602</u>	<u>\$ 98,444</u>
EXPENDITURES						
Current	\$ 2,695	\$ 2,991	\$ 15,085	\$ 13,983	\$ 17,780	\$ 16,974
General government	488	3,124	2	1,714	490	4,838
Capital outlay projects	38,879	24,838	236	32	39,114	24,870
Total expenditures	<u>\$ 42,062</u>	<u>\$ 30,953</u>	<u>\$ 15,322</u>	<u>\$ 15,729</u>	<u>\$ 57,385</u>	<u>\$ 46,682</u>
Excess of revenues over (under) expenditures	<u>\$ 44,902</u>	<u>\$ 66,288</u>	<u>\$ (3,684)</u>	<u>\$ (14,526)</u>	<u>\$ 41,217</u>	<u>\$ 51,762</u>
OTHER FINANCING SOURCES (USES)						
Proceeds from sale of capital assets	\$ 19	\$ 118			\$ 19	\$ 118
Transfers from other funds			10,000	10,000	10,000	10,000
Transfers to other funds	(10,025)	(10,012)	(136)	(64)	(10,161)	(10,777)
Total other financing sources (uses)	<u>\$ (10,006)</u>	<u>\$ (9,894)</u>	<u>\$ 9,864</u>	<u>\$ 9,936</u>	<u>\$ (142)</u>	<u>\$ 41</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>\$ 34,896</u>	<u>\$ 56,393</u>	<u>\$ 6,180</u>	<u>\$ (4,590)</u>	<u>\$ 41,075</u>	<u>\$ 51,803</u>
Fund balances - Beginning of fiscal year	<u>500,265</u>	<u>443,872</u>	<u>140,622</u>	<u>145,212</u>	<u>640,887</u>	<u>589,084</u>
Fund balances - End of fiscal year	<u>\$ 535,161</u>	<u>\$ 500,265</u>	<u>\$ 146,801</u>	<u>\$ 140,622</u>	<u>\$ 681,962</u>	<u>\$ 640,887</u>

Description of Capital Projects Fund

COMBINED RECREATION BOND FUND - STATE PROJECTS

Established in 1988, this Fund operates under Sections 324.19601 - 324.19616, 324.71501 - 324.71514, and 324.74106 - 324.74113 of the *Michigan Compiled Laws*. The balances in the Fund reflect proceeds and investment earnings remaining from two bond packages: \$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, and \$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."

Proceeds from the 1988 bond package were used to construct, expand, and develop recreational facilities at State parks. Proceeds from the 1998 bond package were used for infrastructure improvements at State parks with the installation or upgrade of drinking water systems or restroom facilities as a first priority.

The capital projects fund's financial statements are presented as a part of the governmental fund types, combined financial statements on pages 14 and 15.

DEPARTMENT OF NATURAL RESOURCES
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2007 through September 30, 2009

Federal Agency/Program or Cluster	CFDA (2) Number	For the Fiscal Year Ended September 30, 2008		
		Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<u>U.S. Department of Agriculture</u>				
Schools and Roads Cluster:				
Direct Program:				
Schools and Roads - Grants to States	10.665	\$	\$ 2,611,990	\$ 2,611,990
Total Schools and Roads Cluster		\$ 0	\$ 2,611,990	\$ 2,611,990
Direct Programs:				
Plant and Animal Disease, Pest Control, and Animal Care	10.025	\$ 254,224	\$	\$ 254,224
Conservation Reserve Program	10.069	18,449		18,449
Federal-State Marketing Improvement Program	10.156	14,420		14,420
Cooperative Forestry Assistance	10.664	1,771,953	626,872	2,398,825
Forest Legacy Program	10.676	2,006,451		2,006,451
Forest Land Enhancement Program	10.677		89,135	89,135
Environmental Quality Incentives Program	10.912			0
Total Direct Programs		\$ 4,065,497	\$ 716,007	\$ 4,781,504
Total U.S. Department of Agriculture		\$ 4,065,497	\$ 3,327,997	\$ 7,393,494
<u>U.S. Department of Commerce</u>				
Direct Programs:				
Anadromous Fish Conservation Act Program	11.405	\$ 33,846	\$	\$ 33,846
Interjurisdictional Fisheries Act of 1986	11.407	11,815		11,815
Total Direct Programs		\$ 45,661	\$ 0	\$ 45,661
Pass-Through Program:				
Coastal Zone Management Administration Awards	11.419	\$ 49,346	\$	\$ 49,346
Total Pass-Through Program		\$ 49,346	\$ 0	\$ 49,346
Total U.S. Department of Commerce		\$ 95,007	\$ 0	\$ 95,007
<u>U.S. Department of the Interior</u>				
Fish and Wildlife Cluster:				
Direct Programs:				
Sport Fish Restoration Program	15.605	\$ 11,952,358	\$	\$ 11,952,358
Wildlife Restoration	15.611	9,608,271		9,608,271
Total Fish and Wildlife Cluster		\$ 21,560,629	\$ 0	\$ 21,560,629
Direct Programs:				
Fish and Wildlife Management Assistance	15.608	\$ 252,877	\$	\$ 252,877
Coastal Wetlands Planning, Protection, and Restoration Act	15.614	1,635,938		1,635,938
Cooperative Endangered Species Conservation Fund	15.615	1,123,052		1,123,052
Clean Vessel Act	15.616	12,335	32,908	45,243
Coastal Program	15.630	12,200		12,200
Landowner Incentive Program	15.633	517,864		517,864
State Wildlife Grants	15.634	1,648,134		1,648,134

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2009			Total Expended and Distributed for the Two-Year Period
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
\$	\$ 4,768,768	\$ 4,768,768	\$ 7,380,758
\$ 0	\$ 4,768,768	\$ 4,768,768	\$ 7,380,758
\$ 225,920	\$	\$ 225,920	\$ 480,144
7,714		7,714	26,163
24,388		24,388	38,808
1,987,295	679,013	2,666,308	5,065,133
3,539,360		3,539,360	5,545,811
		0	89,135
26,259		26,259	26,259
\$ 5,810,936	\$ 679,013	\$ 6,489,949	\$ 11,271,453
\$ 5,810,936	\$ 5,447,781	\$ 11,258,717	\$ 18,652,211
\$	\$	\$ 0	\$ 33,846
11,841		11,841	23,656
\$ 11,841	\$ 0	\$ 11,841	\$ 57,502
\$ 84,172	\$	\$ 84,172	\$ 133,518
\$ 84,172	\$ 0	\$ 84,172	\$ 133,518
\$ 96,013	\$ 0	\$ 96,013	\$ 191,020
\$ 12,436,707	\$	\$ 12,436,707	\$ 24,389,065
12,000,802		12,000,802	21,609,073
\$ 24,437,509	\$ 0	\$ 24,437,509	\$ 45,998,138
\$ 21,033	\$	\$ 21,033	\$ 273,910
644,063		644,063	2,280,001
185,573		185,573	1,308,625
10,635	96,178	106,813	152,056
10,799		10,799	22,999
452,495		452,495	970,359
1,575,203		1,575,203	3,223,337

DEPARTMENT OF NATURAL RESOURCES
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2007 through September 30, 2009
Continued

Federal Agency/Program or Cluster	CFDA (2) Number	For the Fiscal Year Ended September 30, 2008		
		Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Outdoor Recreation - Acquisition, Development and Planning	15.916	\$ 876,236	\$ 752,789	\$ 1,629,025
Endangered Species	15.UNKNOWN (3)			0
Total Direct Programs		\$ 6,078,636	\$ 785,697	\$ 6,864,333
Total U.S. Department of the Interior		\$ 27,639,265	\$ 785,697	\$ 28,424,962
<u>U.S. Department of Transportation</u>				
Highway Planning and Construction Cluster:				
Direct Program:				
Recreational Trails Program	20.219	\$ 580,171	\$	\$ 580,171
Total U.S. Department of Transportation		\$ 580,171	\$ 0	\$ 580,171
<u>U.S. Environmental Protection Agency</u>				
Direct Program:				
Great Lakes Program	66.469	\$ 1,643	\$	\$ 1,643
Total U.S. Environmental Protection Agency		\$ 1,643	\$ 0	\$ 1,643
<u>U.S. Department of Homeland Security</u>				
Direct Programs:				
Boating Safety Financial Assistance	97.012	\$ 5,738,687	\$ 1,372,575	\$ 7,111,262
Assistance to Firefighters Grant	97.044	14,988		14,988
Total U.S. Department of Homeland Security		\$ 5,753,675	\$ 1,372,575	\$ 7,126,250
Total Expenditures of Federal Awards		\$ 38,135,258	\$ 5,486,269	\$ 43,621,527

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

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

(3) CFDA number is not available.

<u>For the Fiscal Year Ended September 30, 2009</u>			<u>Total Expended and Distributed for the Two-Year Period</u>
<u>Directly Expended</u>	<u>Distributed to Subrecipients</u>	<u>Total Expended and Distributed</u>	
\$ 861,368	\$ 555,356	\$ 1,416,724	\$ 3,045,749
992		992	992
<u>\$ 3,762,161</u>	<u>\$ 651,534</u>	<u>\$ 4,413,695</u>	<u>\$ 11,278,028</u>
<u>\$ 28,199,670</u>	<u>\$ 651,534</u>	<u>\$ 28,851,204</u>	<u>\$ 57,276,166</u>
\$ 1,780,981	\$	\$ 1,780,981	\$ 2,361,152
<u>\$ 1,780,981</u>	<u>\$ 0</u>	<u>\$ 1,780,981</u>	<u>\$ 2,361,152</u>
\$ 3,522	\$	\$ 3,522	\$ 5,165
<u>\$ 3,522</u>	<u>\$ 0</u>	<u>\$ 3,522</u>	<u>\$ 5,165</u>
\$ 5,550,492	\$ 1,241,143	\$ 6,791,635	\$ 13,902,897
		0	14,988
<u>\$ 5,550,492</u>	<u>\$ 1,241,143</u>	<u>\$ 6,791,635</u>	<u>\$ 13,917,885</u>
<u>\$ 41,441,614</u>	<u>\$ 7,340,458</u>	<u>\$ 48,782,072</u>	<u>\$ 92,403,599</u>

INDEPENDENT AUDITOR'S REPORTS ON
INTERNAL CONTROL AND COMPLIANCE



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

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

Mr. Keith J. Charters, Chair
Natural Resources Commission
and
Ms. Rebecca A. Humphries, Director
Department of Natural Resources and Environment
Stevens T. Mason Building
Lansing, Michigan

Dear Mr. Charters and Ms. Humphries:

We have audited the financial statements and financial schedules of the Department of Natural Resources as of and for the fiscal years ended September 30, 2009 and September 30, 2008, as identified in the table of contents, and have issued our reports thereon dated June 28, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed in the next paragraph, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements and/or financial schedules that is more than

inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in Findings 1 through 3 in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements and/or financial schedules will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies identified in the third paragraph of this section, we consider Finding 1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements and financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement and financial 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 or other matters that are required to be reported under *Government Auditing Standards*. However, we noted other instances of noncompliance as described in the accompanying schedule of findings and questioned costs as Findings 1 through 3.

The Department's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the Department's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Governor, the State's management, the Natural Resources Commission, 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

June 28, 2010



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
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THOMAS H. MCTAVISH, C.P.A.
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

Mr. Keith J. Charters, Chair
Natural Resources Commission
and
Ms. Rebecca A. Humphries, Director
Department of Natural Resources and Environment
Stevens T. Mason Building
Lansing, Michigan

Dear Mr. Charters and Ms. Humphries:

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 two-year period ended September 30, 2009. 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 auditing standards generally accepted in the United States of America; 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 preceding 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.

As described in Finding 7 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding allowable costs/cost principles that are applicable to its Boating Safety Financial Assistance Program. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Department of Natural Resources complied, in all material respects, with the requirements referred to in the first paragraph that are applicable to each of its major federal programs for the two-year period ended September 30, 2009. The results of our auditing procedures also disclosed other 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Department's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and another that we consider to be a material weakness.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 4 through 7 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies described in the preceding paragraph, we consider Finding 7 to be a material weakness.

The Department's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the Department's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Governor, the State's management, the Natural Resources Commission, 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

June 28, 2010

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Statements and Financial Schedules

Type of auditor's report issued: Unqualified*

Internal control* over financial reporting:

Material weaknesses* identified? Yes

Significant deficiencies* identified that are not considered to be material weaknesses? Yes

Noncompliance or other matters material to the financial statements and/or financial schedules? No

Federal Awards

Internal control over major programs:

Material weaknesses* identified? Yes

Significant deficiencies* identified that are not considered to be material weaknesses? Yes

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

Unqualified for all major programs except for Boating Safety Financial Assistance, which is qualified*.

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 or Cluster*</u>
10.664	Cooperative Forestry Assistance
10.665	Schools and Roads Cluster
10.676	Forest Legacy Program
15.605 and 15.611	Fish and Wildlife Cluster
15.634	State Wildlife Grants

* See glossary at end of the report for definition.

15.916	Outdoor Recreation - Acquisition, Development and Planning
97.012	Boating Safety Financial Assistance

Dollar threshold used to distinguish between type A and type B programs: \$2,772,108

Auditee qualified as a low-risk auditee*? No

Section II: Findings Related to the Financial Statements and Financial Schedules

FINDING (7511001)

1. Service Organization Controls

The Department of Natural Resources (DNR) did not obtain sufficient assurances regarding the internal control of the service organization that operated the Central Reservation System. As a result, DNR could not ensure that the \$52.7 million in receipts processed by the Central Reservation System for the two-year period ended September 30, 2009 were properly safeguarded and completely processed. Because of the amount of receipts processed by the service organization, we consider this to be a material weakness in internal control.

The Central Reservation System is used to process camping fees; process point-of-sale transactions; and capture reservations and registrations for State of Michigan campgrounds, harbors, and non-State harbors.

Section 18.1485 of the *Michigan Compiled Laws* requires that DNR establish and maintain an internal accounting and administrative control system for the management of its financial affairs, including internal control techniques that are effective and efficient. Inherent in this requirement is DNR's responsibility to ensure that its service organizations have proper, effective, and operational controls over the processes performed for DNR. The Office of Financial Management, Department of Technology, Management & Budget (DTMB), informed the State's chief financial officers that several alternatives exist to obtain necessary assurances regarding internal control, which include developing

* See glossary at end of the report for definition.

compensating controls within the department to minimize the risk at the service organization, conducting an audit or evaluation at the service organization, or employing an independent auditor to conduct a review (typically in accordance with the American Institute of Certified Public Accountants Statement on Auditing Standards No. 70, *Reports on the Processing of Transactions by Service Organizations*).

DNR did not conduct an audit or evaluation of the service organization or obtain an independent audit. Although DNR developed compensating controls by performing extensive reconciling procedures to help ensure that revenue was properly recorded, these reconciling procedures used information from the Central Reservation System that could not be independently verified.

RECOMMENDATION

We recommend that DNRE obtain sufficient assurances regarding the internal control of the service organization that operates the Central Reservation System.

FINDING (7511002)

2. Cash Management

DNR needs to improve its internal control over requests of federal reimbursement to help ensure timely requests of federal funds. Improvement in DNR's controls could reduce the State's costs associated with the operations of certain federal programs, minimize estimated funding shortfalls and negative cash positions, and increase the opportunity for the State to earn interest revenue.

During fiscal years 2007-08 and 2008-09, DNR expended and distributed a total of approximately \$92.4 million in federal funds. During our audit period, DNR funded the operations of several of its major federal programs using State General Fund/general purpose or State restricted funds and then requested reimbursement from the federal government for the federal share of the costs incurred.

Our review of DNR's program expenditures and related requests of draws of federal funds disclosed that DNR did not request, on a timely basis, federal reimbursement for accumulated expenditures for the operation of the Fish and Wildlife Cluster, *CFDA* 15.605 and 15.611. DNR's average accumulated monthly negative cash position for these two programs was \$2,941,265 during our audit

period. As a result, DNR deprived the State the opportunity to earn an estimated \$109,416.30 in interest revenue. DNR explained that there were a number of reasons that DNR was not able to draw as soon as the funds were expended including furlough days, workload and staffing levels, verification of matching funds, and late grant approvals.

The *Michigan Compiled Laws* and DTMB Administrative Guide procedure 1210.06 require DNR to minimize the time elapsing between the transfer of federal funds from the U.S. Department of Treasury and the disbursement of funds by the State.

RECOMMENDATION

We recommend that DNRE improve its internal control over requests of federal reimbursement to help ensure timely requests of federal funds.

FINDING (7511003)

3. Internal Control Over Accounts Payable and Encumbrances

DNR's internal control over recording accounts payable and encumbrances for the special revenue and permanent funds did not ensure that accounts payable were valid liabilities at fiscal year-end. As a result, accounts payable, expenditures, and encumbrances were misstated in the special revenue and permanent funds. Our review disclosed:

a. Of 35 special revenue fund accounts payable transactions, DNR did not properly record 6 (17%) at fiscal year-end. As a result, DNR's special revenue fund accounts payable balance was overstated by \$127,934 and \$553,477 as of September 30, 2009 and September 30, 2008, respectively. Some of the larger misstatements were as follows:

- (1) DNR overstated accounts payable as of September 30, 2008 for the unspent portion of the available harbors and docks grant in Muskegon without verifying the liability existed. This payable was originally recorded as of September 30, 2007. After the State's deadline for recording accounts payable as of September 30, 2008, DNR determined that the project had been completed in fiscal year 2007-08. As a result, DNR overstated the accounts payable by \$427,372.

- (2) DNR recorded an accounts payable of \$125,000 for a \$500,000 project that did not have any project activity or expenditures as of September 30, 2009 or September 30, 2008. This accounts payable was originally established as of September 30, 2007, but DNR re-established this payable as of September 30, 2009 without contacting the project manager or grantee to confirm if there was a liability. As a result, DNR overstated its accounts payable by \$125,000 as of September 30, 2009 and September 30, 2008. This error also resulted in a \$125,000 encumbrance understatement as of September 30, 2008 because DNR should have recorded an encumbrance instead of an accounts payable. Further, encumbrances were overstated by \$375,000 as of September 30, 2009 because DNR recorded the balance of the contract as an encumbrance although the contract period ended in August 2009.
- b. Of 9 permanent fund accounts payable transactions, DNR understated 1 (11%) at fiscal year-end. As a result, DNR's permanent fund accounts payable balance was understated by \$45,393 as of September 30, 2009 and expenditures were understated by \$45,393 for fiscal year 2008-09.

DNR understated one permanent fund accounts payable and the related expenditures by \$45,393 for a \$305,211 liability as of September 30, 2009. DNR omitted two payments made by a grantee that were documented by a copy of a check registry within DNR's calculation of the September 30, 2009 accounts payable. The grantee check registry was dated within fiscal year 2009-10; however, the goods and services were received by the grantee during fiscal year 2008-09.

Sections 1600.116 - 1600.119 of the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the Governmental Accounting Standards Board, provide that a government should accrue governmental fund liabilities and expenditures in the period in which the government incurs the liability. Also, DNR procedure 03.11-03 provides that "You must determine if goods/services were received by September 30 for each purchase order in order to determine if an old year liability or encumbrance is appropriate."

We noted a similar problem in the prior audit. DNR indicated that it would institute an additional level of review for individual accounts payable in excess of \$500,000. However, internal control still needs to be improved.

RECOMMENDATIONS

WE AGAIN RECOMMEND THAT DNRE IMPROVE ITS INTERNAL CONTROL OVER RECORDING ACCOUNTS PAYABLE FOR THE SPECIAL REVENUE AND PERMANENT FUNDS TO ENSURE THAT ACCOUNTS PAYABLE ARE PROPERLY RECORDED.

We also recommend that DNRE improve its internal control over recording encumbrances.

The status of the findings related to the financial statements and financial schedules that were reported in prior Single Audits* is disclosed in the summary schedule of prior audit findings.

Section III: Findings and Questioned Costs* Related to Federal Awards

FINDING (7511004)

4. Cooperative Forestry Assistance, CFDA 10.664

U.S. Department of the Agriculture	CFDA 10.664: Cooperative Forestry Assistance
Grant Agreement Numbers:	Award Periods:
04-DG-11244225-045	10/01/2003 - 09/30/2008
05-DG-11244225-344	10/01/2004 - 09/30/2008
06-DG-11244225-010	10/01/2005 - 09/30/2008
06-DG-11244225-074	10/01/2005 - 09/30/2008
07-DG-11420004-021	10/01/2006 - 09/30/2009
07-DG-11420004-050	10/01/2006 - 09/30/2009
08-DG-11420004-171	10/01/2008 - 09/30/2010
08-DG-11420004-172	10/01/2007 - 09/30/2010
08-DG-11420004-286	10/01/2008 - 09/30/2011
09-DG-11420007-123	07/01/2009 - 12/31/2009
09-DG-11420004-135	10/01/2008 - 09/30/2010
MI2009 - State Assessment Grant	04/15/2009 - 06/30/2010
	Known Questioned Costs: \$19,984

* See glossary at end of the report for definition.

DNR's internal control over the Cooperative Forestry Assistance Program did not ensure compliance with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; matching, level of effort, and earmarking; and procurement and suspension and debarment. Our review also disclosed weaknesses in internal control related to eligibility and reporting.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions and/or disallowances for the Cooperative Forestry Assistance Program.

Federal expenditures for the Cooperative Forestry Assistance Program totaled \$5,065,133 for the two-year period ended September 30, 2009. We identified known questioned costs of \$19,984 and known and likely questioned costs totaling \$1,887,419.

Our review of expenditures and program files by compliance area disclosed:

a. Activities Allowed or Unallowed

DNR's internal control did not ensure that expenditures incurred for the Cooperative Forestry Assistance Program were for activities allowed. As discussed in the allowable costs/cost principles section (part b.) of this finding, DNR improperly charged the Cooperative Forestry Assistance Program funds for vehicle fuel charges related to non-Cooperative Forestry Assistance Program activities. We questioned costs totaling \$310 in the allowable costs/cost principles section (part b.(1)) of this finding.

b. Allowable Costs/Cost Principles

(1) DNR's internal control did not ensure that Cooperative Forestry Assistance Program expenditures met allowable cost principles of Appendix B, Title 2, Part 225 of the *Code of Federal Regulations (CFR)*.

For 1 (1.7%) of 60 expenditures reviewed, DNR improperly charged the Cooperative Forestry Assistance Program for vehicle fuel charges related to non-Cooperative Forestry Assistance Program activities. As a result, we reported known questioned costs of \$310 and known and likely questioned costs of \$85,724. We obtained and reviewed a randomly selected bi-weekly DNR vehicle fuel charge billed to the Cooperative

Forestry Assistance Program. Our review determined that the fuel credit card log indicated the bi-weekly fuel charges for the vehicle included non-Cooperative Forestry Assistance Program activities. However, DNR charged the total biweekly fuel usage costs for the vehicle to the Cooperative Forestry Assistance Program. The internal control of review and approval of the supporting documentation appeared to be properly designed but failed in this instance.

Appendix A, section C(1)(a) of federal regulation 2 *CFR* 225 requires that for costs to be allowable they must be necessary and reasonable for the proper and efficient performance and administration of federal awards.

- (2) DNR did not ensure that the time and activity record for an employee, whose costs DNR used to meet State match funding requirements for the Cooperative Forestry Assistance Program, was signed by the employee.

Our review of 5 State match funding payroll transactions disclosed 1 (20%) employee who did not record his own time in the State's payroll time and attendance system, Data Collection and Distribution System* (DCDS), or complete and maintain a signed hard copy time and activity record. Therefore, DNR could not ensure that the distribution of the employee's payroll costs to the Cooperative Forestry Assistance Program was appropriate. As a result, we reported known questioned costs of \$1,324 and estimated known and likely questioned costs of \$1,727,024. However, DNR had approximately \$12,352,217 of match for this Program in excess of the \$5,055,844 match reported on its financial status report (FSR) and federal financial report (FFR).

Appendix B, section 8(h) of the federal regulation 2 *CFR* 225 requires employees who are charged to multiple activities or cost objectives to document and maintain signed personnel activity reports, or equivalent documentation, that supports the distribution of the employee's payroll costs. Appendix B, section 8(h) of the federal regulation 2 *CFR* 225 also requires the salaries and wages of employees used in meeting cost-sharing or matching requirements of federal awards to be supported

* See glossary at end of the report for definition.

in the same manner as those claimed as allowable costs under federal awards. DNR policy requires that employees prepare a time sheet or record their time in DCDS.

c. Eligibility

DNR's internal control did not ensure that DNR obtained completed grant applications from Cooperative Forestry Assistance Program applicants to help ensure that applicants met grant eligibility requirements.

There are numerous individual federal awards within the Cooperative Forestry Assistance Program and the specific eligibility requirements for each individual grant are contained in the applicable grant agreement. DNR reported to us that it requires applicants to complete and submit applicable grant applications in order to help ensure that the applicants meet the applicable grant eligibility requirements.

We reviewed 14 randomly selected Cooperative Forestry Assistance Program grantee files to determine if the files contained a completed application from the grantee. Our review determined that 2 (14.3%) of 14 files did not contain a signed application from the grantee. Although DNR's internal control required review of applications for compliance with applicable requirements, we noted one instance in which the file contained an unsigned application and another instance in which the file did not contain an application.

We determined from other documentation contained in the grantees' files that the grantees met the eligibility requirements for the applicable grant. As a result, we have not reported any questioned costs for this part.

d. Matching, Level of Effort, and Earmarking

DNR did not ensure that the time and activity record for an employee, whose costs DNR used to meet State Match funding requirements for the Cooperative Forestry Assistance Program met the requirements of Appendix B, section 8(h) of the federal regulation 2 *CFR* 225. As discussed in the allowable costs/cost principles section (part b.(2)) of this finding, we questioned costs totaling \$1,324.

e. Procurement and Suspension and Debarment

DNR's internal control did not always maintain procurement documentation in compliance with federal and State requirements.

Federal regulation 7 *CFR* 3016.36 requires a state to follow the same policies and procedures it follows for procurements using nonfederal funds. In addition, federal regulation 7 *CFR* 3016.36(b)(9) requires the State to maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to, the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. Further, DNR policy requires three competitive quotations for purchases from \$2,500 through \$25,000, if possible. It also specifies that justification should be documented for not competitively bidding.

We reviewed 6 randomly selected contract files for Cooperative Forestry Assistance Program expenditures totaling \$75,103. We determined that DNR did not maintain the required bidding documentation in 1 (16.7%) of the 6 contract files. DNR explained that the required documentation was obtained but was apparently lost when it was sent to the central office. As a result, we questioned the cost of the expenditure of \$18,350 and known and likely questioned costs of \$74,671.

f. Reporting

DNR's internal control did not ensure that DNR maintained documentation to support the information reported in its performance reports.

Federal regulation 7 *CFR* 3016.40(b)(1) and 3016.40(b)(2) require DNR to submit performance reports comparing actual results to planned results for the grant period. We selected two annual performance reports for review. DNR reported actual activities for the grants in 6 categories: administration, preparedness, suppression/support, equipment, training and community mitigation prevention, and education. Total program costs were \$1,045,909 and \$855,415 for fiscal years 2008-09 and 2007-08, respectively. However, our review disclosed that DNR had not maintained documentation to support the level of actual activities reported or the associated program cost calculations reported for the activities. DNR did not have a policy to require that it retained documentation of amounts reported on the FSRs.

We noted similar problems in our prior audit. DNR indicated that it would comply with the previous by November 30, 2008. However, our audit indicated a continuing need to improve internal controls.

RECOMMENDATIONS

We recommend that DNRE strengthen internal control over the Cooperative Forestry Assistance Program to ensure compliance with federal laws and regulations regarding activities allowed or unallowed; eligibility; matching, level of effort, and earmarking; and procurement and suspension and debarment.

WE AGAIN RECOMMEND THAT DNRE STRENGTHEN INTERNAL CONTROL OVER THE COOPERATIVE FORESTRY ASSISTANCE PROGRAM TO ENSURE COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING ALLOWABLE COSTS/COST PRINCIPLES AND REPORTING.

FINDING (7511005)

5. Fish and Wildlife Cluster, CFDA 15.605 and 15.611

U.S. Department of the Interior	Fish and Wildlife Cluster: CFDA 15.605: Sport Fish Restoration Program CFDA 15.611: Wildlife Restoration
Grant Agreement Number: W-120-S-45	Award Period: 10/01/2007 - 03/31/2009
	Known Questioned Costs: \$0

DNR's internal control did not ensure compliance with federal laws and regulations regarding semiannual certification of employees who worked on only one federal award for the Fish and Wildlife Cluster.

Noncompliance with federal laws and regulations could result in sanctions and/or disallowances for the Fish and Wildlife Cluster.

Federal expenditures for the Fish and Wildlife Cluster totaled \$45,998,138 for the two-year period ended September 30, 2009.

Appendix B, section 8(h) of federal regulation 2 CFR 225 requires that where employees are expected to work solely on a single federal award or cost objective,

charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

We determined that DNR did not have a semiannual certification for 1 (11%) of 9 employees tested that worked solely on the Fish and Wildlife Cluster between April 1 and September 30, 2008. Subsequent to the audit period, DNR obtained the required semiannual payroll certifications.

RECOMMENDATION

We recommend that DNRE establish internal control to ensure compliance with federal laws and regulations regarding semiannual certification of employees who worked on only one federal award for the Fish and Wildlife Cluster.

FINDING (7511006)

6. Outdoor Recreation - Acquisition, Development and Planning, CFDA 15.916

U.S. Department of the Interior	CFDA 15.916: Outdoor Recreation - Acquisition, Development and Planning
Grant Agreement Numbers: Various	Award Periods: Various
	Known Questioned Costs: \$0

DNR's internal control over the Outdoor Recreation - Acquisition, Development and Planning Program did not ensure compliance with federal laws and regulations regarding reporting.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions and/or disallowances for the Outdoor Recreation - Acquisition, Development and Planning Program.

Federal expenditures for the Outdoor Recreation - Acquisition, Development and Planning Program totaled \$3,045,749 for the two-year period ended September 30, 2009.

During our audit period, the Program did not have a sufficient information system established to allow DNR to effectively monitor the need for post-completion inspection reports. However, DNR was in the process of establishing a system to effectively monitor the need for reports for the Program during our audit period.

Our review of the post-completion reports disclosed that DNR did not submit 458 post-completion inspection reports due by September 30, 2009.

Chapter 8, Section M.1 of the Land and Water Conservation Fund Federal Financial Assistance Manual requires that post-completion inspection reports must be submitted to the National Park Service within five years after the final billing for a project and every five years, thereafter.

We noted the same problem in our prior audit. DNR indicated that it would comply by November 30, 2008 but did not.

RECOMMENDATION

WE AGAIN RECOMMEND THAT DNRE IMPROVE ITS INTERNAL CONTROL OVER THE OUTDOOR RECREATION - ACQUISITION, DEVELOPMENT AND PLANNING PROGRAM TO ENSURE COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING REPORTING.

FINDING (7511007)

7. Boating Safety Financial Assistance, CFDA 97.012

U.S. Department of Homeland Security	CFDA 97.012: Boating Safety Financial Assistance
Grant Agreement Numbers: 18.01.26 19.01.26	Award Periods: 10/01/2007 - 09/30/2008 10/01/2008 - 09/30/2009
	Known Questioned Costs: \$895

DNR's internal control over the Boating Safety Financial Assistance Program did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles, procurement and suspension and debarment, and reporting.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions and/or disallowances for the Boating Safety Financial Assistance Program.

DNR reported federal expenditures for the Boating Safety Financial Assistance Program of \$13,902,897 with a required match of \$13,902,897 for the two-year period ended September 30, 2009. However, DNR reported its actual match expenditures of \$57,881,654 for this period as its share of program expenditures on its FSRs and FFRs or \$43,978,757 in excess of the amount of required match. DNR reported its share of program expenditures in excess of the required match, and we audited the reported amount because one-third of the federal funding for the Program is based on the total program expenditures in the previous fiscal year, including the recipients' share of Program costs in excess of the required match.

We identified known questioned costs of \$197 and known and likely questioned costs of \$686,591 in federal expenditures. We also identified known questioned costs of \$698 and known and likely questioned costs of \$828,103 in required match expenditures. (We issued a qualified opinion on compliance for the Boating Safety Financial Assistance Program.) We also identified likely noncompliance with DNR's reported share of program expenditures in excess of the required match of \$22,937,358. We conclude that the significant deficiencies in internal control discussed in this finding are material weaknesses in internal control over compliance with federal program requirements.

Our review of expenditures and program files disclosed:

a. Allowable Costs/Cost Principles

DNR's internal control did not ensure that Boating Safety Financial Assistance Program expenditures met allowable cost principles of federal regulation 2 *CFR* 225 regarding payroll charges.

DNR did not ensure that the time and activity records for employees were signed by the employee and approved by the supervisor. Our review of 11 payroll transactions disclosed that for 3 (30%) of 10 expenditures of federal grant funds and 1 (100%) of 1 expenditures reported as required match employees did not complete and sign a hard copy time and activity record, or the supervisor did not approve the time sheet. As a result, DNR could not ensure that the payroll costs charged to the Boating Safety Financial

Assistance Program or reported as required match were correct. We reported known questioned costs of \$197 (9%) of the \$2,205 of federal expenditures tested and \$698 (100%) of \$698 of required match expenditures tested related to these payroll transactions. We estimated known and likely questioned costs of \$686,591 in federal expenditures and \$828,103 in required match expenditures.

Appendix B, section 8(h) of federal regulation 2 *CFR* 225 requires employees who are charged to multiple activities or cost objectives to document and maintain personnel activity reports or equivalent documentation that supports the distribution of their payroll costs. This federal regulation also applies to the salaries and wages of employees used in meeting cost sharing or matching requirements of federal awards and requires compliance with generally accepted practices of the governmental unit. DNR policy requires that employees enter their time into DCDS and that supervisors electronically approve employee time. Also, DNR policy requires that hard copy time sheets be signed by the employee and have supervisor approval prior to processing.

b. Procurement and Suspension and Debarment

DNR did not have internal control to ensure that municipalities receiving funding reported as required match complied with procurement requirements and were not on the federal Excluded Parties List System or to notify the contractors that they are required to ensure that each person that they subcontract with has not been suspended or debarred. In addition, DNR did not have other controls in place to verify that contractors or subcontractors were not on the federal Excluded Parties List System.

Our review disclosed that 5 (100%) of 5 sampled State Waterways grant agreements with municipalities for \$328,479 did not include language that informed contractors that, by signing contracts, they were certifying that they have not been suspended or debarred and that they are required to pass the requirement to subcontractors.

Without internal control to verify compliance with procurement requirements and the status of contractors, a risk exists that procurement requirements are not complied with and contractors or subcontractors could be suspended or debarred.

Federal regulation 44 *CFR* 18.35 states that grantees and subgrantees must not make any award or permit any award (subgrant or contract) to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in federal assistance programs under Executive Order No. 12549. Also, the U.S. Department of Homeland Security, United States Coast Guard publication, State Recreational Boating Safety Programs guide, Chapter 5, section 5.4 requires that any contracts or purchase orders include all clauses and conditions required by federal statutes and executive orders and their implementing regulations.

c. Reporting

DNR's internal control did not ensure that all of the amounts reported as DNR's share of program expenditures on the Boating Safety Financial Assistance Program FSRs and FFRs complied with federal allowable costs/cost principles and procurement and suspension and debarment compliance requirements. We estimate that the amounts reported as DNR's share of program expenditures includes approximately \$22,927,331 that do not comply with compliance requirements:

- (1) DNR reported expenditures for ineligible annual groundwater permit fees of \$59,350 and fuel purchased for resale to the general public by DNR at harbors of \$1,866,006.

Appendix A, section C of federal regulation 2 *CFR* 225 requires that program costs must be necessary and reasonable for proper and efficient performance and administration of federal awards.

- (2) DNR did not ensure that the time and activity records for employees were signed by the employee and approved by the supervisor or payroll costs were certified for employees that only worked on one federal award.

Our review of 6 payroll transactions disclosed that for 4 (67%) expenditures that were reported as DNR's share of program expenditures, the employees did not enter their own time into DCDS, the employees did not complete and sign a hard copy time and activity records, the supervisors did not approve the time sheets, or employees who worked on only one federal award did not have certified payroll costs. As a result, DNR could not ensure that the payroll costs reported

as DNR's share of program expenditures for the Boating Safety Financial Assistance Program were correct. We estimate that approximately \$16,857,000 of payroll costs did not comply with allowable costs/cost principles requirements.

Appendix B, section 8(h) of federal regulation 2 *CFR* 225 requires that where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. This federal regulation also applies to the salaries and wages of employees used in meeting cost sharing or matching requirements of federal awards.

- (3) DNR reported \$45,023 of costs not incurred during the grant period ended September 30, 2009. DNR recorded an accounts payable based on the balance of a Waterways grant agreement and an accounts payable in excess of a Waterways grant agreement rather than based on actual obligations.
- (4) DNR did not have a process to ensure that contractors complied with procurement requirements and were not on the federal Excluded Parties List System or to notify the contractors that they are required to ensure that each person that they subcontract with has not been suspended or debarred. In addition, DNR did not have other controls in place to verify that contractors or subcontractors were not on the federal Excluded Parties List System.

Our review disclosed that 11 (100%) of 11 of sampled State Waterways grant agreements with municipalities for \$2,918,859 did not include language that informed contractors that by signing contracts, they were certifying that they have not been suspended or debarred and that they are required to pass the requirement to subcontractors.

Without a process to verify compliance with procurement requirements and the status of contractors, a risk exists that procurement requirements

are not complied with and contractors or subcontractors could be suspended or debarred.

We noted similar problems in our prior audit. DNR indicated that it would comply by November 30, 2008. However, DNR did not comply with portions of the prior audit recommendation.

RECOMMENDATIONS

WE AGAIN RECOMMEND THAT DNRE STRENGTHEN INTERNAL CONTROL OVER THE BOATING SAFETY FINANCIAL ASSISTANCE PROGRAM TO ENSURE COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING ALLOWABLE COSTS/COST PRINCIPLES AND PROCUREMENT AND SUSPENSION AND DEBARMENT.

We also recommend that DNRE strengthen internal control over reporting.

The status of the findings related to federal awards that were reported in prior Single Audits is disclosed in the summary schedule of prior audit findings.

OTHER SCHEDULES

DEPARTMENT OF NATURAL RESOURCES AND ENVIRONMENT
Summary Schedule of Prior Audit Findings
As of June 28, 2010

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL STATEMENTS AND FINANCIAL SCHEDULES

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 2005 through September 30, 2007

Finding Number: 7510801

Finding Title: Internal Control Over Accounts Payable

Finding: The Department of Natural Resources' (DNR's) internal control over recording accounts payable for General Fund and the Michigan Natural Resources Trust Fund did not ensure that accounts payable were recorded at the proper amount and that expenditures were recorded in the proper fiscal year at the proper amount.

Agency Comments: During September 2008 and September 2009, DNR held three year-end closing training sessions that were attended by finance staff from every division. The training included a discussion on the proper recording of accounts payable, the difference between an accounts payable and an encumbrance, Exhibits A and B from Chapter 14, Section 100 of the Financial Management Guide, and the decision tree for recording accounts payable and determining proper fiscal year. During the fiscal year 2007-08 and 2008-09 year-end closing process, DNR instituted an additional level of review by the chief accountant for any accounts payable transactions in excess of \$500,000. These transactions were reviewed and signed off on prior to being released in the accounting system.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2005 through September 30, 2007
Finding Number: 7510803
Finding Title: Schools and Roads - Grants to States, *CFDA* 10.665

Finding: DNR's internal control over the Schools and Roads - Grants to States Program did not ensure compliance with federal laws and regulations regarding subrecipient monitoring.

Agency Comments: DNR sent follow-up letters to obtain all missing reports from subrecipients, as well as any subrecipient who incorrectly distributed the funds. DNR also identified which subrecipients expended \$500,000 or more in federal awards during their fiscal year and followed up by obtaining and reviewing their Single Audit reports.

Audit Period: October 1, 2005 through September 30, 2007
Finding Number: 7510804
Finding Title: Fish and Wildlife Cluster, *CFDA* 15.605 and 15.611

Finding: DNR's internal control over the Fish and Wildlife Cluster did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

Agency Comments: DNR updated its procedures to require a hard copy of the time sheet signed by the employee be maintained for audit purposes when an employee is unable to enter his/her own time into the Data Collection and Distribution System (DCDS).

Audit Period: October 1, 2005 through September 30, 2007

Finding Number: 7510805

Finding Title: State Wildlife Grants, *CFDA* 15.634

Finding: DNR's internal control over the State Wildlife Grants Program did not ensure compliance with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; and matching, level of effort, and earmarking.

Agency Comments: The Wildlife Division has ensured that all final reports from universities are received and reviewed before final payments are made. It has also specified the amounts and percentages of indirect costs to be waived by the universities in the work plans and in the purchase orders. The Wildlife Division has completed the required semiannual certification for employees working solely on the State Wildlife Grants Program.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 2005 through September 30, 2007

Finding Number: 7510802

Finding Title: Cooperative Forestry Assistance, *CFDA* 10.664

Finding: DNR's internal control over the Cooperative Forestry Assistance Program did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles, reporting, procurement and suspension and debarment, and subrecipient monitoring.

Agency Comments: The Forest, Mineral and Fire Management Division reviewed the documentation requirements with supervisors and staff to ensure that they understood the requirements and were maintaining proper documentation to support payment amounts. They are also matching invoices with actual inventories of the locations of planted trees before payments are approved. Procurement Services is ensuring that no purchases of goods or services within DNR's delegated authority are made to parties on the

federal List of Parties Excluded from Federal Procurement or Non-procurement Programs. Financial Services staff are verifying the recommended bidder's status prior to award, and a database is maintained for audit purposes.

Audit Period: October 1, 2005 through September 30, 2007
Finding Number: 7510806
Finding Title: Outdoor Recreation - Acquisition, Development and Planning, *CFDA* 15.916

Finding: DNR's internal control over the Outdoor Recreation - Acquisition, Development and Planning Program did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles, cash management, subrecipient monitoring, and reporting.

Agency Comments: Financial Services corrected an error in one of the formulas used to compute the indirect cost rate. Grants Management is notifying all subrecipients of the *CFDA* title and number for federal funds passed through to them. Grants Management is continuing to reduce the number of overdue post-completion inspection reports.

Audit Period: October 1, 2005 through September 30, 2007
Finding Number: 7510807
Finding Title: Boating Safety Financial Assistance, *CFDA* 97.012

Finding: DNR's internal control over the Boating Safety Financial Assistance Program did not ensure compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, cash management, period of availability, reporting, and subrecipient monitoring.

Agency Comments: The activities and expenditures for a project that was not included in the grant documentation was an isolated error, and

DNR has since submitted a complete list of eligible projects with the grant application information.

DNR is not allowing expenditures from encumbrances, work projects, or capital outlay that were carried forward from a prior year to be applied to a prior year grant and is not submitting for reimbursement until expended, at which time the expenditures will be applied to the current year grant.

Executive Order No. 2009-45 created the Department of Natural Resources and Environment (DNRE), effective January 17, 2010. It transferred all of the authority, powers, duties, functions, responsibilities, records, personnel, property, equipment, and budgetary resources of DNR and the Department of Environmental Quality (DEQ) to DNRE by a Type II transfer and abolished DNR and DEQ.

DEPARTMENT OF NATURAL RESOURCES AND ENVIRONMENT

Corrective Action Plan

As of June 22, 2010

FINDINGS RELATED TO THE FINANCIAL STATEMENTS AND FINANCIAL SCHEDULES

Finding Number: 7511001

Finding Title: Service Organization Controls

Management Views: The Department of Natural Resources and Environment (DNRE) agrees with Finding 1 and will comply with the corresponding recommendation.

Planned Corrective Action: DNRE will request that the service organization conduct an independent audit or evaluation (SAS 70 compliant) to obtain the necessary assurances regarding internal control.

Anticipated Completion Date: February 28, 2011

Responsible Individual: Denise Gruben, Manager, Customer Systems

Finding Number: 7511002

Finding Title: Cash Management

Management Views: DNRE agrees with Finding 2 and will comply with the corresponding recommendation.

Planned Corrective Action: DNRE will request federal reimbursement on a monthly basis whenever possible to help ensure timely requests of federal funds.

Anticipated Completion Date: July 31, 2010

Responsible Individual: Eric Sink, Federal Aid Coordinator, Budget and Support Services

Finding Number: 7511003
Finding Title: Internal Control Over Accounts Payable and Encumbrances

Management Views: DNRE agrees with Finding 3 and will comply with the corresponding recommendations.

Planned Corrective Action: DNRE will send letters or e-mails to each community that has an active grant-in-aid agreement, asking the community to estimate their expenditures as of the end of the fiscal year. Follow-up letters or e-mails will be sent to any community that did not respond to the first request for the information. Also, when it is unclear from the documentation submitted with the request for reimbursement, DNRE will confirm with grantees when the goods and services were received.

Anticipated Completion Date: October 31, 2010

Responsible Individuals: Joseph Frick, Chief, Financial Services
Anthony Herek, Manager, Recreation Division

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 7511004
Finding Title: Cooperative Forestry Assistance, *CFDA* 10.664

Management Views: DNRE agrees with Finding 4 and will comply with the corresponding recommendations.

Planned Corrective Action: DNRE will again notify employees that if they are unable to enter their own time into the Data Collection and Distribution System (DCDS), the supervisor, manager, or timekeeper will be responsible for entering the time, printing the time sheets, and obtaining the employees' signatures. These signed

time sheets will be maintained for audit purposes. This procedure will also be shared with all new employees.

Program staff will be reminded to maintain all appropriate documentation. Field staff will also be encouraged to retain a copy or scan all documentation before sending originals to the central office.

Anticipated Completion Date: October 1, 2010

Responsible Individual: Lynn Boyd, Chief, Forest Management Division

Finding Number: 7511005

Finding Title: Fish and Wildlife Cluster, *CFDA* 15.605 and 15.611

Management Views: DNRE agrees with Finding 5 and has already complied with the corresponding recommendation.

Planned Corrective Action: The missing certification was from fiscal year 2007-08. From fiscal year 2008-09 and forward, the required certifications were completed and maintained.

Anticipated Completion Date: The corrective action has been completed.

Responsible Individual: Dennis Fox, Manager, Marketing, Education and Technology

Finding Number: 7511006

Finding Title: Outdoor Recreation - Acquisition, Development and Planning, *CFDA* 15.916

Management Views: DNRE agrees with Finding 6 and will comply with the corresponding recommendation. Grants Management has established a process to comply with National Park Service (NPS) post-completion inspection

requirements and to address the post-completion inspection backlog. Of the 458 post-completion inspections reported by NPS as overdue at the end of fiscal year 2008-09, 375 post-completion inspections were performed during that time period. Note: Funding is not provided to the State to comply with NPS mandated perpetual monitoring requirements.

Planned Corrective Action: DNRE will work closely with NPS to verify which projects are outstanding. DNRE will also continually update its post-completion inspection records as well as report completed inspections to NPS in a timely manner. DNRE will maintain its focus on completing overdue inspections to ensure compliance with NPS requirements.

Anticipated Completion Date: To be determined

Responsible Individual: Deborah Apostol, Unit Manager, Grants Management

Finding Number: 7511007
Finding Title: Boating Safety Financial Assistance, *CFDA 97.012*

Management Views: DNRE agrees with Finding 7 and will comply with the corresponding recommendations.

Planned Corrective Action: DNRE will again notify employees that if they are unable to enter their own time into DCDS, the supervisor, manager, or timekeeper will be responsible for entering the time, printing the time sheets, and obtaining the employees' signatures. These signed time sheets will be maintained for audit purposes. This procedure will also be shared with all new employees.

DNRE will revise grant-in-aid agreements with municipalities to include language that notifies the grantees that they are required to comply with federal procurement requirements and informs contractors that, by signing contracts, they are certifying that they have not been suspended or debarred and that they are required to pass the requirement to subcontractors.

DNRE will exclude fuel purchased for resale or annual groundwater permit fees in its reported expenditures for the Boating Safety Financial Assistance program.

DNRE will complete and maintain the required certifications for employees who have worked 100% on one federal award.

DNRE will send letters or e-mails to each community that has an active grant-in-aid agreement, asking the community to estimate their expenditures as of the end of the fiscal year for the purpose of establishing accounts payables. Follow-up letters or e-mails will be sent to any community that did not respond to the first request for the information.

Anticipated Completion Date: September 30, 2010

Responsible Individual: Anthony Herek, Manager, Recreation Division

GLOSSARY

Glossary of Acronyms and Terms

<i>CFDA</i>	<i>Catalog of Federal Domestic Assistance.</i>
<i>CFR</i>	<i>Code of Federal Regulations.</i>
cluster	A grouping of closely related federal programs that have similar compliance requirements. Although the programs within a cluster are administered as separate programs, a cluster of programs is treated as a single program for the purpose of meeting the audit requirements of OMB Circular A-133.
control deficiency in internal control over federal program compliance	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis noncompliance with a type of compliance requirement of a federal program.
control deficiency in internal control over financial reporting	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.
Data Collection and Distribution System (DCDS)	The State's client/server system that records, allocates, and distributes payroll costs within the accounting system for the Michigan Administrative Information System's Human Resource System (MAIN HRS).
DEQ	Department of Environmental Quality.
DTMB	Department of Technology, Management & Budget.
DNR	Department of Natural Resources.
DNRE	Department of Natural Resources and Environment.

financial audit	An audit that is designed to provide reasonable assurance about whether the financial statements and/or financial schedules of an audited entity are presented fairly in all material respects in conformity with the disclosed basis of accounting.
FFR	federal financial report.
FSR	financial status report.
GAAP	accounting principles generally accepted in the United States of America.
internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and 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 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 misstatement	A misstatement in the financial statements and/or financial schedules that causes the statements and/or schedules to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting.
material noncompliance	Violations of laws, regulations, contracts, and grants that could have a direct and material effect on major federal programs or on financial schedule and/or financial statement amounts.

material weakness in internal control over federal program compliance	A significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected.
material weakness in internal control over financial reporting	A significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements and/or financial schedules will not be prevented or detected.
MSPEF	Michigan State Parks Endowment Fund.
NPS	National Park Service.
OMB	U.S. Office of Management and Budget.
other noncompliance	Violations of contracts or grant agreements that are not material to the financial statements or financial schedules but should be communicated to management in accordance with <i>Government Auditing Standards</i> . Other noncompliance also includes violations of laws, regulations, contracts, or grant agreements; fraud; abuse; or other internal control deficiencies that may be communicated to management in accordance with <i>Government Auditing Standards</i> .
pass-through entity	A nonfederal entity that provides a federal award to a subrecipient to carry out a federal program.
qualified opinion	An auditor's opinion in which the auditor: <ul style="list-style-type: none"> a. Identifies a scope limitation or one or more instances of misstatements that impact the fair presentation of the financial statements and/or financial schedules presenting the basic financial information of the audited agency in conformity with the disclosed basis of accounting or the financial statements and/or financial

schedules presenting supplemental financial information in relation to the basic financial statements and/or financial schedules. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial statements and/or financial schedules, to the extent necessary to form an opinion on the basic financial statements and/or financial schedules, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules and/or financial statements taken by themselves; or

- b. Expresses reservations about the audited agency's compliance, in all material respects, with the cited requirements that are applicable to each major federal program.

questioned costs

A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

significant deficiency
in internal control over
federal program
compliance

A control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected.

significant deficiency in internal control over financial reporting	A control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements and/or financial schedules that is more than inconsequential will not be prevented or detected.
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 auditing standards generally accepted in the United States of America 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.
<i>SOMCAFR</i>	<i>State of Michigan Comprehensive Annual Financial Report.</i>
subrecipient	A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.
unqualified opinion	<p>An auditor's opinion in which the auditor states that:</p> <ul style="list-style-type: none"> a. The financial statements and/or financial schedules presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; or

- b. The financial statements and/or financial schedules presenting supplemental financial information are fairly stated in relation to the basic financial statements and/or financial schedules. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial statements and/or financial schedules to the extent necessary to form an opinion on the basic financial statements and/or financial schedules, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial statements and/or financial schedules taken by themselves; or
- c. The audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.

