



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:

<http://audgen.michigan.gov>



Michigan
Office of the Auditor General
REPORT SUMMARY

Financial Audit

Including the Provisions of the Single Audit Act

Report Number:
751-0100-12

Department of Natural Resources

October 1, 2009 through September 30, 2011

Released:
June 2012

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 a material weakness in internal control over financial reporting (Finding 1). We also identified a significant deficiency in internal control over financial reporting (Finding 2).

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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 or other matters applicable to the financial statements and financial schedules that are required to be reported under *Government Auditing Standards*. However, we did identify other noncompliance (Findings 1 and 2).

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Federal Awards:

Auditor's Reports Issued on Compliance

We audited 7 programs (including 1 American Recovery and Reinvestment Act [ARRA] related program) as major programs and reported known questioned costs of \$177,112. DNR expended a total of \$95.0 million in federal awards, including \$3.1 million of ARRA funding, during the two-year period ended September 30, 2011. We issued 7 unqualified opinions. 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 in internal control over major federal program compliance (Findings 3 through 8). We also identified two recommendations repeated from our prior report for the two-year period ended September 30, 2009 (Findings 3 and 6).

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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 3 through 6 and Finding 8).

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Internal Accounting and Administrative Control System:

Section 18.1489 of the *Michigan Compiled Laws* requires the Auditor General to evaluate the implementation of Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* and report to the Legislature in the financial audit of each department. As a result of Executive Reorganization Order No. 2007-31 (Consolidating Internal Audit Functions), in which responsibility for most of the sections was moved to the Office of Internal Audit Services, State Budget Office, we have evaluated the implementation of

only Section 18.1485 in this financial audit. Section 18.1485 requires each department director to establish an internal accounting and administrative control system, defines the elements of that system, defines the duties of the department director, and provides for certain reports. We determined that DNR was in substantial compliance with Section 18.1485 of the *Michigan Compiled Laws*.

The remaining sections (Sections 18.1483, 18.1484, and 18.1486 - 18.1488 of the *Michigan Compiled Laws*) will be evaluated and reported on in the performance audit of the Office of Internal Audit Services, State Budget Office.

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We audited the following programs as major programs:

<i>CFDA Number</i>	<i>Program or Cluster Title</i>	<i>Compliance Opinion</i>
10.664	Cooperative Forestry Assistance	Unqualified
10.688	ARRA - Recovery Act of 2009: Wildland Fire Management	Unqualified
15.605, 15.611, and 15.626	Fish and Wildlife Cluster	Unqualified
15.614	Coastal Wetlands Planning, Protection and Restoration Act	Unqualified
15.916	Outdoor Recreation - Acquisition, Development and Planning	Unqualified
20.219	Recreational Trails Program	Unqualified
97.012	Boating Safety Financial Assistance	Unqualified

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

Scott M. Strong, C.P.A., C.I.A.
Deputy Auditor General



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

June 27, 2012

Mr. Timothy L. Nichols, Chair
Natural Resources Commission
and
Mr. Rodney A. Stokes, Director
Department of Natural Resources
Stevens T. Mason Building
Lansing, Michigan

Dear Mr. Nichols and Mr. Stokes:

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, 2009 through September 30, 2011.

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 schedule. 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 that could have a direct and material effect on 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 plan to comply with the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

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

Sincerely,


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

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INDEPENDENT AUDITOR'S REPORTS,
FINANCIAL STATEMENTS, AND
FINANCIAL SCHEDULES



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

Independent Auditor's Report on the Financial Statements

Mr. Timothy L. Nichols, Chair
Natural Resources Commission
and
Mr. Rodney A. Stokes, Director
Department of Natural Resources
Stevens T. Mason Building
Lansing, Michigan

Dear Mr. Nichols and Mr. Stokes:

We have audited the accompanying financial statements of the Department of Natural Resources as of and for the fiscal years ended September 30, 2011 and September 30, 2010, 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, 2011 and September 30, 2010 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, 2011 and September 30, 2010 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 11, 2012 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.

Sincerely,



Thomas H. McTavish, C.P.A.

Auditor General

June 11, 2012



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

Independent Auditor's Report on the Financial Schedules

Mr. Timothy L. Nichols, Chair
Natural Resources Commission
and
Mr. Rodney A. Stokes, Director
Department of Natural Resources
Stevens T. Mason Building
Lansing, Michigan

Dear Mr. Nichols and Mr. Stokes:

We have audited the accompanying financial schedules of the Department of Natural Resources for the fiscal years ended September 30, 2011 and September 30, 2010, 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, 2011 and September 30, 2010 on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2012 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.

Sincerely,



Thomas H. McTavish, C.P.A.
Auditor General
June 11, 2012

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

	Governmental Fund Types					
	Special Revenue Funds		Permanent Funds		Capital Projects Fund	
	2011	2010 (Restated - Notes 2 and 5)	2011	2010 (Restated - Notes 2 and 5)	2011	2010 (Restated - Notes 2 and 5)
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 188	\$ 96	\$ 255,630	\$ 198,432	\$ 458	\$ 4,022
Equity in common cash (Note 4)	100,612	94,829				
Taxes, interest, and penalties receivable	185	181				
Amounts due from other funds		1,397				
Amounts due from federal agencies	1,150	1,347				
Inventories	377	358				
Other current assets	8,371	8,999	9,112	14,009		
Total current assets	<u>\$ 110,883</u>	<u>\$ 107,207</u>	<u>\$ 264,742</u>	<u>\$ 212,441</u>	<u>\$ 458</u>	<u>\$ 4,022</u>
Noncurrent liabilities:						
Taxes, interest, and penalties receivable	1	2				
Investments (Notes 3 and 4)	181,400	178,082	616,520	643,564		
Total assets	<u>\$ 292,284</u>	<u>\$ 285,291</u>	<u>\$ 881,262</u>	<u>\$ 856,005</u>	<u>\$ 458</u>	<u>\$ 4,022</u>
LIABILITIES AND FUND BALANCES						
Current liabilities:						
Warrants outstanding	\$ 118	\$ 623	\$ 975	\$ 346	\$	\$ 1
Accounts payable and other liabilities	14,932	13,357	8,947	7,233		
Obligations under securities lending						
Amounts due to other funds	822	675	59	44		
Deferred revenue - short-term	929	837				
Total current liabilities	<u>\$ 16,800</u>	<u>\$ 15,492</u>	<u>\$ 9,981</u>	<u>\$ 7,623</u>	<u>\$</u>	<u>\$ 1</u>
Long-term liabilities:						
Deferred revenue	1	2				
Total liabilities	<u>\$ 16,802</u>	<u>\$ 15,494</u>	<u>\$ 9,981</u>	<u>\$ 7,623</u>	<u>\$ 0</u>	<u>\$ 1</u>
Fund balances:						
Nonspendable fund balance (Note 5)	\$ 186,552	\$ 184,482	\$ 655,457	\$ 629,138	\$	\$
Restricted fund balance	88,930	85,314	215,824	219,244	458	4,021
Total fund balances	<u>\$ 275,482</u>	<u>\$ 269,797</u>	<u>\$ 871,281</u>	<u>\$ 848,382</u>	<u>\$ 458</u>	<u>\$ 4,021</u>
Total liabilities and fund balances	<u>\$ 292,284</u>	<u>\$ 285,291</u>	<u>\$ 881,262</u>	<u>\$ 856,005</u>	<u>\$ 458</u>	<u>\$ 4,022</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	
	2011	2010 (Restated - Note 2)	2011	2010	2011	2010 (Restated - Note 2)
REVENUES						
Taxes	\$ 224	\$ 241	\$	\$	\$	\$
From federal agencies	3,290	3,461				
From licenses and permits	118,706	115,588				
Miscellaneous (Note 6)	50,611	125,718	72,632	214,329	5	11
Total revenues	<u>\$ 172,831</u>	<u>\$ 245,008</u>	<u>\$ 72,632</u>	<u>\$ 214,329</u>	<u>\$ 5</u>	<u>\$ 11</u>
EXPENDITURES						
Current	\$ 176,913	\$ 176,046	\$ 15,048	\$ 18,105	\$ 1	\$ 17
General government	1,422	1,462	486	485		
Capital outlay projects	3,974	6,947	35,866	29,169		
Total expenditures	<u>\$ 182,309</u>	<u>\$ 184,455</u>	<u>\$ 51,400</u>	<u>\$ 47,759</u>	<u>\$ 1</u>	<u>\$ 17</u>
Excess of revenues over (under) expenditures	<u>\$ (9,478)</u>	<u>60,553</u>	<u>\$ 21,232</u>	<u>\$ 166,570</u>	<u>\$ 4</u>	<u>\$ (6)</u>
OTHER FINANCING SOURCES (USES)						
Proceeds from sale of capital assets	\$	\$	\$ 2	\$ 11	\$	\$
Transfers from other funds	32,228	29,872	11,833	10,000		
Transfers to other funds	(17,065)	(16,243)	(10,168)	(10,161)	(3,567)	
Total other financing sources (uses)	<u>\$ 15,163</u>	<u>\$ 13,629</u>	<u>\$ 1,667</u>	<u>\$ (150)</u>	<u>\$ (3,567)</u>	<u>\$ 0</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>\$ 5,685</u>	<u>\$ 74,182</u>	<u>\$ 22,899</u>	<u>\$ 166,420</u>	<u>\$ (3,563)</u>	<u>\$ (6)</u>
Fund Balances - Beginning of fiscal year (Note 2)	<u>269,797</u>	<u>195,615</u>	<u>848,382</u>	<u>681,962</u>	<u>4,021</u>	<u>4,027</u>
Fund balances - End of fiscal year	<u><u>\$ 275,482</u></u>	<u><u>\$ 269,797</u></u>	<u><u>\$ 871,281</u></u>	<u><u>\$ 848,382</u></u>	<u><u>\$ 458</u></u>	<u><u>\$ 4,021</u></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)

	<u>2011</u>	<u>2010</u>
REVENUES		
From federal agencies	\$ 42,099	\$ 46,134
From services	332	985
From licenses and permits	197	179
Miscellaneous	3,832	4,717
Total revenues	<u>\$ 46,460</u>	<u>\$ 52,015</u>
OTHER FINANCING SOURCES		
Capital lease acquisitions	\$ 387	\$ 59
Proceeds from sale of capital assets	1,688	1,376
Total other financing sources	<u>\$ 2,075</u>	<u>\$ 1,435</u>
 Total revenues and other financing sources	 <u>\$ 48,535</u>	 <u>\$ 53,450</u>

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

DEPARTMENT OF NATURAL RESOURCES
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Years Ended September 30
(In Thousands)

	<u>2011</u>	<u>2010</u>
SOURCES OF AUTHORIZATIONS (Note 7)		
General purpose appropriations	\$ 15,611	\$ 17,402
Balances carried forward	4,856	4,805
Restricted financing sources	50,176	55,132
Less: Intrafund expenditure reimbursements	<u>(2,044)</u>	<u>(2,404)</u>
 Total	 <u>\$ 68,599</u>	 <u>\$ 74,935</u>
 DISPOSITION OF AUTHORIZATIONS (Note 7)		
Gross expenditures and transfers out	\$ 64,763	\$ 72,464
Less: Intrafund expenditure reimbursements	<u>(2,044)</u>	<u>(2,404)</u>
Net expenditures and transfers out	<u>\$ 62,719</u>	<u>\$ 70,060</u>
Balances carried forward:		
Encumbrances	\$ 315	\$ 166
Restricted revenues - not authorized or used	5,522	4,691
Total balances carried forward	<u>\$ 5,837</u>	<u>\$ 4,857</u>
Balances lapsed	<u>\$ 43</u>	<u>\$ 18</u>
 Total	 <u>\$ 68,599</u>	 <u>\$ 74,935</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 - Executive Order Reorganizations

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 the Department of Natural Resources (DNR) and the Department of Environmental Quality (DEQ) to DNRE by a Type II transfer and abolished DNR and DEQ.

Executive Order No. 2011-1 abolished DNRE and recreated DNR and DEQ as separate principal departments in the executive branch, effective March 13, 2011. The powers, duties, functions, responsibilities, personnel, equipment, and unexpended appropriations of DNRE were transferred back to DNR and DEQ. Executive Order No. 2009-45 was implemented for financial reporting purposes on October 1, 2010. Executive Order No. 2011-1 was implemented for financial reporting purposes on April 1, 2011. All underlying accounting transactions that posted to DNRE were moved to either DNR or DEQ prior to September 30, 2011, therefore, the executive orders have no impact on the financial statements and schedules.

b. 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

DNR as of and for the fiscal years ended September 30, 2011 and September 30, 2010:

Special Revenue Funds

Michigan Conservation and Recreation Legacy Fund

Michigan Game and Fish Protection Trust Fund

Michigan Nongame Fish and Wildlife Trust Fund

Forest Development Fund

Michigan Civilian Conservation Corps Endowment Fund

Permanent Funds

Michigan Natural Resources Trust Fund

Michigan State Parks Endowment Fund

Capital Projects Fund

Combined Recreation Bond Fund

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)*.

c. 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, 2011 and September 30, 2010.

d. 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 1b. 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 funds, permanent funds, 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 accounts for specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

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.

Capital Projects Funds: This fund group accounts for resources used for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude capital-related outflows financed by proprietary or trust funds.

Fund Balance Classifications

In the financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the State is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

DNR's fund balances include nonspendable and restricted fund balances:

- a. Nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form, such as inventories, prepaids, and long-term receivables, or legally or contractually required to be maintained intact.
- b. Restricted fund balance includes amounts that are restricted when constraints placed on the use of the resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Note 2 Accounting Changes and Restatements

During fiscal year 2010-11, the State implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of GASB Statement No. 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to honor constraints imposed upon the use of the resources reported in governmental funds. The new fund balance classifications are discussed in detail in Note 1.

GASB Statement No. 54 also provided clarified governmental fund type definitions. As a result, one fund reported in prior years as a special revenue fund was determined to no longer meet the special revenue fund definition. The Combined Recreation Bond Fund - Local Projects balances were moved to the capital projects fund type and are now reported as part of the Combined Recreation Bond Fund, which now includes both State and local projects.

As a result of this fund reclassification, beginning fund balance was decreased in the special revenue fund group and increased in the capital projects fund group by \$2,145,881 in fiscal year 2009-10. The capital projects fund group now includes funds established to account for the outflow of State resources for capital related expenditures of local units of government.

The financial statements and schedules in this report have been restated to retroactively implement GASB Statement No. 54 for fiscal year 2009-10. DNR requested and was granted approval from the Office of Financial Management within the State Budget Office to present the financial statements and schedules in this report differently from the *SOMCAFR* by restating fiscal year 2009-10 to comply with the reporting requirements of GASB Statement No. 54.

Note 3 Funds Held for Investments

By constitutional provision or statute, certain revenues have been set aside 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 "Nonspendable" represent corpus amounts, which are legally required to be maintained intact (Note 5). These amounts plus or minus amounts related to undistributed investment gains or losses are held for investment. The State Treasurer is responsible for managing these investments. The State Treasurer, by agreement with DNR, invests amounts held 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: DNR's fixed income portfolio is made up of government securities, corporate bonds and notes, and alternative investments. 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 distribution is based upon interest income.

The following table shows the carrying amounts of DNR investments by investment type as of September 30, 2011:

	Special Revenue Funds	Permanent Funds
	<hr/>	<hr/>
Government securities	\$ 4,734,748	\$ 45,972,509
Corporate bonds and notes	126,144,386	408,941,559
Mutual funds	49,978,749	159,567,333
Alternative	542,052	2,038,777
Total	<hr/> <hr/>	<hr/> <hr/>
	\$181,399,935	\$616,520,178

The following table shows the carrying amounts of DNR investments by investment type as of September 30, 2010:

	Special Revenue Funds	Permanent Funds
	<hr/>	<hr/>
Government securities	\$ 1,976,098	\$ 53,035,507
Corporate bonds and notes	120,721,685	419,757,645
Mutual funds	55,384,367	170,771,509
Alternative		
Total	<hr/> <hr/>	<hr/> <hr/>
	\$178,082,150	\$643,564,661

Note 4 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 2010-11 and 2009-10:

- 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	
	2011	2010
Equity in common cash:		
Special revenue funds	\$100,612,008	\$ 94,828,565
Permanent funds	\$255,628,953	\$198,432,812
Capital projects fund	\$ 458,192	\$ 4,021,512

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, 2011 and September 30, 2010.

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 those investments. 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, 2011, 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*	\$ 49,978,749	\$	\$	\$	\$
Corporate bonds	126,144,386		43,888,125	72,815,896	9,440,365
Government securities	4,734,748		1,008,517	3,009,810	716,421
Permanent funds:					
Mutual funds*	159,567,333				
Corporate bonds	408,941,559		147,075,761	257,680,488	4,185,310
Government securities	45,972,509		5,032,091	19,287,238	21,653,180
Total investments	<u>\$795,339,284</u>	<u>\$ 0</u>	<u>\$197,004,494</u>	<u>\$352,793,432</u>	<u>\$35,995,276</u>

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

As of September 30, 2010, 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*	\$ 55,384,367	\$	\$	\$	\$
Corporate bonds	120,721,685		34,622,526	70,352,060	15,747,099
Government securities	1,976,098		1,026,648		949,450
Permanent funds:					
Mutual funds*	170,771,509				
Corporate bonds	419,757,645		136,160,683	271,162,573	12,434,389
Government securities	53,035,507		6,093,048	23,586,607	23,355,852
Total investments	\$821,646,811	\$ 0	\$177,902,905	\$365,101,240	\$52,486,790

* 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. 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, 2011, 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	\$ 14,770,935	AA	\$ 17,284,633	Aa
	107,642,257	A	104,437,507	A
	3,731,194	BBB	4,422,246	Baa
Government securities - U.S. agencies	4,018,327	AA	4,018,327	Aaa
Permanent funds:				
Corporate bonds	100,061,924	AA	1,250,666	Aaa
	290,810,745	A	94,138,515	Aa
	18,068,890	BBB	300,715,099	A
			12,837,279	Baa
Government securities - U.S. agencies	24,319,329	AA	24,319,329	Aaa
Total	\$563,423,601		\$563,423,601	

As of September 30, 2010, 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	\$17,190,916	AA	\$ 19,095,324	Aa
	98,487,943	A	101,626,361	A
	5,042,826	BBB		
Government securities - U.S. agencies	1,026,648	AAA	1,026,648	Aaa
Permanent funds:				
Corporate bonds	1,266,168	AAA	1,266,168	Aaa
	89,176,774	AA	74,391,451	Aa
	317,344,464	A	344,100,027	A
	11,970,240	BBB		
Government securities - U.S. agencies	29,679,655	AAA	29,679,655	Aaa
Total	\$571,185,634		\$571,185,634	

(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 or deposits. As of September 30, 2011 and September 30, 2010, 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. DNR did not have any investments that represent 5% or more of total investments.

c. Unrealized Investment Gain/(Loss)

DNR's investment balances at year-end include unrealized gains and losses. DNR's unrealized investment income decreased by \$1,129,152 for special revenue funds and by \$10,789,977 for permanent funds in fiscal year 2010-11 and increased by \$7,890,664 for special revenue funds and by \$29,495,180 for permanent funds in fiscal year 2009-10 to reflect the change in fair value of investments.

Note 5 Nonspendable Fund Balance

The implementation of GASB Statement No. 54 (Note 2) establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to honor constraints imposed upon the use of the resources reported in governmental funds. The line entitled "Nonspendable fund balance" on the combined balance sheet includes the following fund balances (in thousands). These amounts cannot be spent because they are corpus amounts that are legally or contractually required to be maintained intact:

	Fiscal Year	
	2010-11	2009-10
Michigan Conservation and Recreation Legacy Fund Lifetime License Trust	\$ 1,729	\$ 1,801
Michigan Game and Fish Protection Trust Fund	178,823	176,681
Michigan Nongame Fish and Wildlife Trust Fund	6,000	6,000
Michigan Natural Resources Trust Fund	500,000	487,773
Michigan State Parks Endowment Fund	155,457	141,365
Total nonspendable fund balance	<u>\$842,009</u>	<u>\$813,620</u>

Note 6 Miscellaneous Revenue

On May 4, 2010, DNR held an oil and gas lease auction on State-owned land, which resulted in proceeds of \$178.4 million. As a result of this sale, there were significant increases in miscellaneous revenue of \$113.9 million in the Michigan Natural Resources Trust Fund, a special revenue fund, and \$63.9 million in Game and Fish Protection Trust Fund, a permanent fund.

Note 7 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 2010-11 included \$24.4 million in federal fish and wildlife restoration funds, \$7.4 million in federal forest service funds, and \$6.1 million in federal homeland security funds. Significant sources for DNR in fiscal year 2009-10 included \$22.4 million in federal fish and wildlife restoration funds, \$11.6 million in federal forest service funds, and \$7.2 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 in fiscal year 2010-11 were \$1.1 million of aircraft fees, \$1.6 million of land sale revenue, and \$1.8 million of private funds. Significant carry-forwards of this type in fiscal year 2009-10 were \$1.3 million of aircraft fees and \$1.5 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 8 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.

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

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.

MICHIGAN NONGAME FISH AND WILDLIFE TRUST 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.

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 from State forest lands. Expenditures from the Fund are for forest management activities and forest fire protection. The Authority is authorized to, but thus far has not, issued bonds.

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.

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		Michigan Nongame Fish and Wildlife Trust Fund	
	2011	2010 (Restated - Notes 2 and 5)	2011	2010 (Restated - Notes 2 and 5)	2011	2010 (Restated - Notes 2 and 5)
ASSETS						
Current assets:						
Cash	\$ 96	\$ 96	\$	\$	\$	\$
Equity in common cash	69,627	63,979	19,132	20,147	486	522
Taxes, interest, and penalties receivable	185	181				
Amounts due from other funds		1,397				
Amounts due from federal agencies	1,066	1,198				
Amounts due from local units						
Inventories	377	358				
Other current assets	4,411	4,211	3,814	4,657	64	58
Total current assets	\$ 75,761	\$ 71,420	\$ 22,946	\$ 24,804	\$ 550	\$ 580
Noncurrent assets:						
Taxes, interest, and penalties receivable	1	2				
Investments	1,481	1,763	173,556	169,964	6,364	6,355
Total assets	\$ 77,243	\$ 73,184	\$ 196,502	\$ 194,768	\$ 6,913	\$ 6,936
LIABILITIES AND FUND BALANCES						
Current liabilities:						
Warrants outstanding	\$ 107	\$ 553	\$	\$ 46	\$	\$
Accounts payable and other liabilities	10,560	11,641	2,024		41	43
Amounts due to other funds	647	563			2	1
Deferred revenue	929	837				
Total current liabilities	\$ 12,243	\$ 13,595	\$ 2,024	\$ 46	\$ 43	\$ 44
Long-term liabilities:						
Deferred revenue	1	2				
Total liabilities	\$ 12,244	\$ 13,596	\$ 2,024	\$ 46	\$ 43	\$ 44
Fund balances:						
Nonspendable fund balance	\$ 1,729	\$ 1,801	\$ 178,823	\$ 176,681	\$ 6,000	\$ 6,000
Restricted fund balance	63,270	57,787	15,655	18,041	870	891
Total fund balances	\$ 64,999	\$ 59,588	\$ 194,478	\$ 194,722	\$ 6,870	\$ 6,891
Total liabilities and fund balances	\$ 77,243	\$ 73,184	\$ 196,502	\$ 194,768	\$ 6,913	\$ 6,936

Forest Development Fund		Michigan Civilian Conservation Corps Endowment Fund		Combined Totals	
2011	2010 (Restated - Notes 2 and 5)	2011	2010 (Restated - Notes 2 and 5)	2011	2010 (Restated - Notes 2 and 5)
\$ 92	\$ 1	\$ 0	\$	\$ 188	\$ 96
11,367	10,175		5	100,612	94,829
				185	181
					1,397
84	149			1,150	1,347
				377	358
83	74			8,371	8,999
<u>\$ 11,626</u>	<u>\$ 10,398</u>	<u>\$ 0</u>	<u>\$ 5</u>	<u>\$ 110,883</u>	<u>\$ 107,207</u>
				1	2
		\$ 0		181,400	178,082
<u>\$ 11,626</u>	<u>\$ 10,398</u>	<u>\$ 0</u>	<u>\$ 5</u>	<u>\$ 292,284</u>	<u>\$ 285,291</u>
\$ 11	\$ 23		\$	\$ 118	\$ 623
2,306	1,669		4	14,932	13,357
173	110		1	822	675
		\$ 0		929	837
<u>\$ 2,491</u>	<u>\$ 1,802</u>	<u>\$ 0</u>	<u>\$ 5</u>	<u>\$ 16,800</u>	<u>\$ 15,492</u>
				1	2
<u>\$ 2,491</u>	<u>\$ 1,802</u>	<u>\$ 0</u>	<u>\$ 5</u>	<u>\$ 16,802</u>	<u>\$ 15,494</u>
\$	\$	\$	\$	\$ 186,552	\$ 184,482
9,135	8,596			88,930	85,314
<u>\$ 9,135</u>	<u>\$ 8,596</u>	<u>\$ 0</u>	<u>\$</u>	<u>\$ 275,482</u>	<u>\$ 269,797</u>
<u>\$ 11,626</u>	<u>\$ 10,398</u>	<u>\$ 0</u>	<u>\$ 5</u>	<u>\$ 292,284</u>	<u>\$ 285,291</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		Michigan Nongame Fish and Wildlife Trust Fund	
	2011	2010 (Restated - Notes 2 and 5)	2011	2010 (Restated - Notes 2 and 5)	2011	2010 (Restated - Notes 2 and 5)
REVENUES						
Taxes	\$ 224	\$ 241	\$	\$	\$	\$
From federal agencies	3,290	3,444				
From licenses and permits	118,704	115,586				
Miscellaneous	4,326	5,240	13,841	86,292	482	924
Total revenues	<u>\$ 126,544</u>	<u>\$ 124,511</u>	<u>\$ 13,841</u>	<u>\$ 86,292</u>	<u>\$ 482</u>	<u>\$ 924</u>
EXPENDITURES						
Current	\$ 145,315	\$ 146,004	\$ 64	\$ 69	\$ 497	\$ 544
General government	1,419	1,460	3	2		
Capital outlay projects	3,957	6,753				
Total expenditures	<u>\$ 150,691</u>	<u>\$ 154,217</u>	<u>\$ 67</u>	<u>\$ 71</u>	<u>\$ 497</u>	<u>\$ 544</u>
Excess of revenues over (under) expenditures	<u>\$ (24,147)</u>	<u>\$ (29,706)</u>	<u>\$ 13,774</u>	<u>\$ 86,221</u>	<u>\$ (15)</u>	<u>\$ 380</u>
OTHER FINANCING SOURCES (USES)						
Proceeds from sale of capital assets	\$	\$	\$	\$	\$	\$
Transfers from other funds	32,228	29,872				
Transfers to other funds	(2,670)	(2,692)	(14,018)	(13,157)	(6)	(5)
Total other financing sources (uses)	<u>\$ 29,558</u>	<u>\$ 27,180</u>	<u>\$ (14,018)</u>	<u>\$ (13,157)</u>	<u>\$ (6)</u>	<u>\$ (5)</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>\$ 5,411</u>	<u>\$ (2,526)</u>	<u>\$ (244)</u>	<u>\$ 73,064</u>	<u>\$ (21)</u>	<u>\$ 375</u>
Fund balances - Beginning of fiscal year - Restated (Note 2)	<u>59,588</u>	<u>62,114</u>	<u>194,722</u>	<u>121,658</u>	<u>6,891</u>	<u>6,516</u>
Fund balances - End of fiscal year	<u><u>\$ 64,999</u></u>	<u><u>\$ 59,588</u></u>	<u><u>\$ 194,478</u></u>	<u><u>\$ 194,722</u></u>	<u><u>\$ 6,870</u></u>	<u><u>\$ 6,891</u></u>

Forest Development Fund		Michigan Civilian Conservation Corps Endowment Fund		Combined Totals	
2011	2010 (Restated - Notes 2 and 5)	2011	2010 (Restated - Notes 2 and 5)	2011	2010
\$	\$	\$	\$	\$ 224	\$ 241
	17			3,290	3,461
2	2			118,706	115,588
31,962	33,255		7	50,611	125,718
<u>\$ 31,964</u>	<u>\$ 33,274</u>	<u>\$ 0</u>	<u>\$ 7</u>	<u>\$ 172,831</u>	<u>\$ 245,008</u>
\$ 31,037	\$ 29,140	\$	\$ 289	\$ 176,913	\$ 176,046
				1,422	1,462
17	194			3,974	6,947
<u>\$ 31,054</u>	<u>\$ 29,334</u>	<u>\$ 0</u>	<u>\$ 289</u>	<u>\$ 182,309</u>	<u>\$ 184,455</u>
\$ 910	\$ 3,940	\$ 0	\$ (282)	\$ (9,478)	\$ 60,553
\$	\$	\$	\$	\$ 0	\$ 0
				32,228	29,872
(371)	(386)		(3)	(17,065)	(16,243)
<u>\$ (371)</u>	<u>\$ (386)</u>	<u>\$ 0</u>	<u>\$ (3)</u>	<u>\$ 15,163</u>	<u>\$ 13,629</u>
\$ 539	\$ 3,554	\$	\$ (285)	\$ 5,685	\$ 74,182
8,596	5,042		285	269,797	195,615
<u>\$ 9,135</u>	<u>\$ 8,596</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 275,482</u>	<u>\$ 269,797</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*. The State Treasurer directs the investments of the Fund, which include fixed income and equity investments.

Historically, most "royalty revenues" (i.e., rentals, royalties, and other revenues derived from mineral, coal, oil, and gas interests on State-owned lands) were credited to the Fund with a portion (50%, up to \$10 million per year) transferred to the Michigan State Parks Endowment Fund (MSPEF). Two-thirds of royalty revenues, less the portion transferred to MSPEF, were added to the accumulated principal until that balance reached the constitutional limitation of \$500 million. This limitation was reached in fiscal year 2010-11; therefore, most bonus, rental, and royalty revenues are now constitutionally required to be deposited into MSPEF.

The constitutional provision also limits all future appropriations to investment and other miscellaneous income of the Fund. 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.

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 \$10.0 million per year of revenues from oil and gas bonuses, rentals, and royalties from State-owned land has been deposited into this fund through fiscal year 2010-11 when the Michigan Natural Resources Trust Fund (MNRTF) attained an accumulated principal amount of

\$500.0 million. Currently all revenues from oil and gas bonuses, rentals, and royalties from State-owned land previously attributable to the MNRTF are deposited in the State Parks Endowment Fund until the accumulated principal is capped at \$800.0 million.

The Legislature is limited to appropriating no more than 50% of the amount transferred from the MNRTF plus interest; investment earnings; and 50% of revenues from oil and gas bonuses, rentals, and royalties from State-owned land. When the fund's reserve reaches \$800.0 million, only the interest and earnings in excess of the amount needed to maintain the \$800.0 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	
	2010		2010		2010	
	2011	(Restated - Notes 2 and 5)	2011	(Restated - Notes 2 and 5)	2011	(Restated - Notes 2 and 5)
ASSETS						
Current assets:						
Equity in common cash	\$ 218,359	\$ 185,330	\$ 37,271	\$ 13,102	\$ 255,630	\$ 198,432
Other current assets	2,807	10,931	6,305	3,078	9,112	14,009
Total current assets	<u>\$ 221,166</u>	<u>\$ 196,261</u>	<u>\$ 43,576</u>	<u>\$ 16,180</u>	<u>\$ 264,742</u>	<u>\$ 212,441</u>
Investments - Long-term	483,726	504,010	132,794	139,554	616,520	643,564
Total assets	<u><u>\$ 704,892</u></u>	<u><u>\$ 700,271</u></u>	<u><u>\$ 176,370</u></u>	<u><u>\$ 155,734</u></u>	<u><u>\$ 881,262</u></u>	<u><u>\$ 856,005</u></u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Warrants outstanding	\$ 913	\$ 313	\$ 62	\$ 33	\$ 975	\$ 346
Accounts payable and other liabilities	7,926	6,100	1,021	1,133	8,947	7,233
Amounts due to other funds	7	11	52	33	59	44
Total liabilities	<u>\$ 8,846</u>	<u>\$ 6,424</u>	<u>\$ 1,135</u>	<u>\$ 1,199</u>	<u>\$ 9,981</u>	<u>\$ 7,623</u>
Fund balances:						
Nonspendable fund balance	\$ 500,000	\$ 487,773	\$ 155,457	\$ 141,365	\$ 655,457	\$ 629,138
Restricted fund balance	196,046	206,074	19,778	13,170	215,824	219,244
Total fund balances	<u>\$ 696,046</u>	<u>\$ 693,847</u>	<u>\$ 175,235</u>	<u>\$ 154,535</u>	<u>\$ 871,281</u>	<u>\$ 848,382</u>
Total liabilities and fund balances	<u><u>\$ 704,892</u></u>	<u><u>\$ 700,271</u></u>	<u><u>\$ 176,370</u></u>	<u><u>\$ 155,734</u></u>	<u><u>\$ 881,262</u></u>	<u><u>\$ 856,005</u></u>

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

	<u>Michigan Natural</u>		<u>Michigan State</u>		<u>Totals</u>	
	<u>Resources Trust Fund</u>		<u>Parks Endowment Fund</u>		<u>2011</u>	<u>2010</u>
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
REVENUES						
Miscellaneous	\$ 49,546	\$ 200,326	\$ 23,086	\$ 14,003	\$ 72,632	\$ 214,329
Total revenues	<u>\$ 49,546</u>	<u>\$ 200,326</u>	<u>\$ 23,086</u>	<u>\$ 14,003</u>	<u>\$ 72,632</u>	<u>\$ 214,329</u>
EXPENDITURES						
Current	\$ 2,975	\$ 2,749	\$ 12,073	\$ 15,356	\$ 15,048	\$ 18,105
General government	484	483	2	2	486	485
Capital outlay projects	35,691	28,390	175	779	35,866	29,169
Total expenditures	<u>\$ 39,150</u>	<u>\$ 31,622</u>	<u>\$ 12,250</u>	<u>\$ 16,137</u>	<u>\$ 51,400</u>	<u>\$ 47,759</u>
Excess of revenues over (under) expenditures	<u>\$ 10,396</u>	<u>\$ 168,704</u>	<u>\$ 10,836</u>	<u>\$ (2,134)</u>	<u>\$ 21,232</u>	<u>\$ 166,570</u>
OTHER FINANCING SOURCES (USES)						
Proceeds from sale of capital assets	\$ 2	\$ 11	\$	\$	\$ 2	\$ 11
Transfers from other funds	1,833		10,000	10,000	11,833	10,000
Transfers to other funds	(10,032)	(10,029)	(136)	(132)	(10,168)	(10,161)
Total other financing sources (uses)	<u>\$ (8,197)</u>	<u>\$ (10,018)</u>	<u>\$ 9,864</u>	<u>\$ 9,868</u>	<u>\$ 1,667</u>	<u>\$ (150)</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>\$ 2,199</u>	<u>\$ 158,686</u>	<u>\$ 20,700</u>	<u>\$ 7,734</u>	<u>\$ 22,899</u>	<u>\$ 166,420</u>
Fund balances - Beginning of fiscal year	<u>693,847</u>	<u>535,161</u>	<u>154,535</u>	<u>146,801</u>	<u>848,382</u>	<u>681,962</u>
Fund balances - End of fiscal year	<u>\$ 696,046</u>	<u>\$ 693,847</u>	<u>\$ 175,235</u>	<u>\$ 154,535</u>	<u>\$ 871,281</u>	<u>\$ 848,382</u>

Description of Capital Projects Fund

COMBINED RECREATION BOND FUND

Established in 1988, this Fund operates under Sections 324.19601 - 324.19616, 324.71303, 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; to provide grants and loans to local units of government for recreation projects; and to discourage development of open space and underdeveloped lands. Proceeds from the 1998 bond package were used to improve State parks with the installation or upgrade of drinking water systems or restroom facilities and to provide grants and loans to local units of government for recreation projects.

In fiscal year 2010-11, the remaining bond balances related to the 1998 bond package used to improve State parks were transferred to the State Park Improvement Account within the Michigan Conservation and Recreation Legacy Fund pursuant to Section 303 of Act 50, P.A. 2011. A significant portion of the remaining bond balances related to the 1998 bond package used for grants to local units of government were transferred to the Michigan Natural Resources Trust Fund pursuant to Section 302 of Act 50, P.A. 2011.

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

DEPARTMENT OF NATURAL RESOURCES
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2009 through September 30, 2011

Federal Agency/Program or Cluster	CFDA (2) Number	For the Fiscal Year Ended September 30, 2010		
		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	\$	\$ 4,427,311	\$ 4,427,311
Total Schools and Roads Cluster		\$ 0	\$ 4,427,311	\$ 4,427,311
Direct Programs:				
Plant and Animal Disease, Pest Control, and Animal Care	10.025	\$ 216,333	\$	\$ 216,333
Conservation Reserve Program	10.069	3,599		3,599
Voluntary Public Access and Habitat Incentive Program	10.093			0
Federal-State Marketing Improvement Program	10.156	71	18,554	18,625
Grants for Agricultural Research, Special Research Grants	10.200			0
Cooperative Forestry Assistance	10.664	1,964,417	651,486	2,615,903
Urban and Community Forestry Program	10.675			0
Forest Legacy Program	10.676	46,986	3,975,000	4,021,986
Forest Stewardship Program	10.678			0
ARRA - Recovery Act of 2009: Capital Improvement and Maintenance	10.687	17,447		17,447
ARRA - Recovery Act of 2009: Wildland Fire Management	10.688	1,429,901		1,429,901
Environmental Quality Incentives Program	10.912	115,957		115,957
Total Direct Programs		\$ 3,794,711	\$ 4,645,040	\$ 8,439,751
Total U.S. Department of Agriculture		\$ 3,794,711	\$ 9,072,351	\$ 12,867,062
<u>U.S. Department of Commerce</u>				
Direct Program:				
Interjurisdictional Fisheries Act of 1986	11.407	\$ 17,176	\$	\$ 17,176
Total Direct Program		\$ 17,176	\$ 0	\$ 17,176
Pass-Through Program:				
Michigan Department of Environmental Quality Coastal Zone Management Administration Awards	11.419	\$ 81,347	\$	\$ 81,347
Total Pass-Through Program		\$ 81,347	\$ 0	\$ 81,347
Total U.S. Department of Commerce		\$ 98,523	\$ 0	\$ 98,523
<u>U.S. Department of the Interior</u>				
Fish and Wildlife Cluster:				
Direct Programs:				
Sport Fish Restoration Program	15.605	\$ 10,914,220	\$	\$ 10,914,220
Wildlife Restoration and Basic Hunter Education	15.611	11,897,266		11,897,266
Enhanced Hunter Education and Safety Program	15.626	240,000		240,000
Total Fish and Wildlife Cluster		\$ 23,051,486	\$ 0	\$ 23,051,486
Direct Programs:				
Fish and Wildlife Management Assistance	15.608	\$ 24,117	\$	\$ 24,117
Coastal Wetlands Planning, Protection and Restoration Act	15.614	356,790	95,669	452,459
Cooperative Endangered Species Conservation Fund	15.615	153,138		153,138
Clean Vessel Act	15.616	5,721	12,628	18,349
Sportfishing and Boating Safety Act	15.622			0
Coastal Program	15.630	40,679		40,679
Landowner Incentive Program	15.633	296,122		296,122
State Wildlife Grants	15.634	1,720,610		1,720,610

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2011			Total Expended and Distributed
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	for the Two-Year Period
\$	\$ 4,232,727	\$ 4,232,727	\$ 8,660,038
\$ 0	\$ 4,232,727	\$ 4,232,727	\$ 8,660,038

\$ 204,577	\$	\$ 204,577	\$ 420,910
		0	3,599
50,000		50,000	50,000
		0	18,625
882		882	882
1,234,626	534,233	1,768,859	4,384,762
41,922		41,922	41,922
		0	4,021,986
17,387		17,387	17,387
		0	17,447
1,212,943	18,700	1,231,643	2,661,544
92,754		92,754	208,711
\$ 2,855,091	\$ 552,933	\$ 3,408,024	\$ 11,847,775
\$ 2,855,091	\$ 4,785,660	\$ 7,640,751	\$ 20,507,813

\$ 12,276	\$	\$ 12,276	\$ 29,452
\$ 12,276	\$ 0	\$ 12,276	\$ 29,452

\$ 24,633	\$	\$ 24,633	\$ 105,980
\$ 24,633	\$ 0	\$ 24,633	\$ 105,980
\$ 36,909	\$ 0	\$ 36,909	\$ 135,432

\$ 11,439,092	\$	\$ 11,439,092	\$ 22,353,312
12,599,976		12,599,976	24,497,242
240,000		240,000	480,000
\$ 24,279,068	\$ 0	\$ 24,279,068	\$ 47,330,554

\$ 120,284	\$	\$ 120,284	\$ 144,401
555,994	195,951	751,945	1,204,404
19,577		19,577	172,715
9,824	113,543	123,367	141,716
98,177		98,177	98,177
43,972		43,972	84,651
383,960		383,960	680,082
1,903,729		1,903,729	3,624,339

DEPARTMENT OF NATURAL RESOURCES
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2009 through September 30, 2011
Continued

Federal Agency/Program or Cluster	CFDA (2) Number	For the Fiscal Year Ended September 30, 2010		
		Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Research Grants (Generic)	15.650	\$	\$	\$ 0
Great Lakes Restoration	15.662			0
U.S. Geological Survey Research and Data Collection	15.808	56,825		56,825
Outdoor Recreation - Acquisition, Development and Planning	15.916	638,582	114,375	752,957
Total Direct Programs		\$ 3,292,584	\$ 222,672	\$ 3,515,256
Total U.S. Department of the Interior		\$ 26,344,070	\$ 222,672	\$ 26,566,742
<u>U.S. Department of Transportation</u>				
Highway Planning and Construction Cluster:				
Direct Program:				
Recreational Trails Program	20.219	\$ 2,419,473	\$	\$ 2,419,473
Total U.S. Department of Transportation		\$ 2,419,473	\$ 0	\$ 2,419,473
<u>U.S. Environmental Protection Agency</u>				
Direct Program:				
Great Lakes Program	66.469	\$ 1,582	\$	\$ 1,582
Total U.S. Environmental Protection Agency		\$ 1,582	\$ 0	\$ 1,582
<u>National Archives and Records Administration</u>				
Direct Program:				
National Historical Publications and Records Grants	89.003	\$ 4,100	\$	\$ 4,100
Total National Archives and Records Administration		\$ 4,100	\$ 0	\$ 4,100
<u>U.S. Department of Homeland Security</u>				
Direct Programs:				
Boating Safety Financial Assistance	97.012	\$ 6,065,542	\$ 1,609,669	\$ 7,675,211
Assistance to Firefighters Grant	97.044	157,881		157,881
ARRA - Port Security Grant Program (PSGP)	97.116			0
Total Direct Programs		\$ 6,223,423	\$ 1,609,669	\$ 7,833,092
Total U.S. Department of Homeland Security		\$ 6,223,423	\$ 1,609,669	\$ 7,833,092
Total Expenditures of Federal Awards		\$ 38,885,882	\$ 10,904,692	\$ 49,790,574

(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*.

For the Fiscal Year Ended September 30, 2011			Total Expended and Distributed for the Two-Year Period
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
\$ 40,585	\$	\$ 40,585	\$ 40,585
42,912		42,912	42,912
37,175		37,175	94,000
389,849	489,275	879,124	1,632,081
<u>\$ 3,646,038</u>	<u>\$ 798,769</u>	<u>\$ 4,444,807</u>	<u>\$ 7,960,063</u>
\$ 27,925,106	\$ 798,769	\$ 28,723,875	\$ 55,290,617

<u>\$ 1,760,525</u>	<u>\$</u>	<u>\$ 1,760,525</u>	<u>\$ 4,179,998</u>
\$ 1,760,525	\$ 0	\$ 1,760,525	\$ 4,179,998

<u>\$ 410,177</u>	<u>\$</u>	<u>\$ 410,177</u>	<u>\$ 411,759</u>
\$ 410,177	\$ 0	\$ 410,177	\$ 411,759

<u>\$ 13,084</u>	<u>\$</u>	<u>\$ 13,084</u>	<u>\$ 17,184</u>
\$ 13,084	\$ 0	\$ 13,084	\$ 17,184

\$ 5,192,361	\$ 1,044,317	\$ 6,236,678	\$ 13,911,889
		0	157,881
379,901		379,901	379,901
<u>\$ 5,572,262</u>	<u>\$ 1,044,317</u>	<u>\$ 6,616,579</u>	<u>\$ 14,449,671</u>
\$ 5,572,262	\$ 1,044,317	\$ 6,616,579	\$ 14,449,671
<u>\$ 38,573,154</u>	<u>\$ 6,628,746</u>	<u>\$ 45,201,900</u>	<u>\$ 94,992,474</u>

INDEPENDENT AUDITOR'S REPORTS ON INTERNAL CONTROL AND COMPLIANCE



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
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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. Timothy L. Nichols, Chair
Natural Resources Commission
and
Mr. Rodney A. Stokes, Director
Department of Natural Resources
Stevens T. Mason Building
Lansing, Michigan

Dear Mr. Nichols and Mr. Stokes:

We have audited the accompanying financial statements and financial schedules of the Department of Natural Resources as of and for the fiscal years ended September 30, 2011 and September 30, 2010, as identified in the table of contents, and have issued our reports thereon dated June 11, 2012. 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

Management of the Department is responsible for establishing and maintaining effective 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements and financial schedules will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs in Finding 1 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs in Finding 2 to be a significant deficiency.

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 in Findings 1 and 2.

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 Legislature, the Natural Resources Commission, management, others within the Department, 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.

Sincerely,



Thomas H. McTavish, C.P.A.

Auditor General

June 11, 2012



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on Compliance With
Requirements That Could Have a Direct and Material Effect on
Each Major Program and on Internal Control Over Compliance in
Accordance With OMB Circular A-133

Mr. Timothy L. Nichols, Chair
Natural Resources Commission
and
Mr. Rodney A. Stokes, Director
Department of Natural Resources
Stevens T. Mason Building
Lansing, Michigan

Dear Mr. Nichols and Mr. Stokes:

Compliance

We have audited the Department of Natural Resources' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the two-year period ended September 30, 2011. 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 of its major federal programs 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.

In our opinion, the Department of Natural Resources complied, in all material respects, with the compliance requirements referred to in the first paragraph that could have a direct and material effect on each of its major federal programs for the two-year period ended September 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those

requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs in Findings 3 through 6 and 8.

Internal Control Over Compliance

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 the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined in the preceding paragraph. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs in Findings 3 through 8. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 Legislature, the Natural Resources Commission, management, others within the Department, 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.

Sincerely,



Thomas H. McTavish, C.P.A.
Auditor General
June 11, 2012

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? No

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

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

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

Identification of major programs:

<u>CFDA* Number</u>	<u>Name of Federal Program or Cluster*</u>
10.664	Cooperative Forestry Assistance
10.688	ARRA* - Recovery Act of 2009: Wildland Fire Management
15.605, 15.611, and 15.626	Fish and Wildlife Cluster
15.614	Coastal Wetlands Planning, Protection and Restoration

* See glossary at end of report for definition.

15.916	Outdoor Recreation - Acquisition, Development and Planning
20.219	Recreational Trails Program
97.012	Boating Safety Financial Assistance

Dollar threshold used to distinguish between type A and type B programs: \$2,849,774

Auditee qualified as a low-risk auditee*? No

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

FINDING (7511201)

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 \$61.4 million in receipts processed by the Central Reservation System for the two-year period ended September 30, 2011 were properly safeguarded and completely processed. We consider this to be a material weakness in internal control.

DNR uses the Central Reservation System to process camping fees; point-of-sale transactions; and capture reservations and registrations for State of Michigan campgrounds, harbors, and non-State harbors. DNR contracted with a service organization to operate the Central Reservation System.

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, and Budget (DTMB),

* See glossary at end of report for definition.

informed the State's chief financial officers that several alternatives exist to obtain necessary assurances regarding the internal control, including developing 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 Statements on Standards for Attestation Engagements No. 16, *Reporting on Controls at a Service Organization*).

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.

We noted the same condition in the prior audit. DNR indicated on February 28, 2011 that it would comply by requesting the service organization to have an independent audit or evaluation completed. DNR informed us that the current multi-year contract executed with the service organization did not contain any provisions that required the vendor to have an independent audit or evaluation completed. DNR did not amend the current contract to require the service organization to have an independent audit or evaluation completed.

RECOMMENDATION

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

FINDING (7511202)

2. Preparation of the Schedule of Expenditures of Federal Awards (SEFA)

DNR's internal control over financial reporting did not ensure that DNR prepared its SEFA in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and State financial management policies.

OMB Circular A-133 requires DNR to prepare a SEFA and to include the SEFA in its single audit report. The State of Michigan Financial Management Guide

provides DNR instructions for preparing its SEFA in accordance with OMB Circular A-133. Also, OMB Circular A-133 defines internal control as a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of certain objectives, including the reliability of financial reporting.

Our review of DNR's SEFA preparation process and verification of DNR's SEFA for the two-year period ended September 30, 2011 disclosed:

- a. DNR's internal control did not ensure that it accurately reported "Total Expended and Distributed" amounts on the SEFA.

We noted that DNR overstated "Total Expended and Distributed" amounts for 2 (25%) of the 8 major federal programs totaling \$372,681 and understated "Total Expended and Distributed" amounts for 2 (25%) of the 8 major federal programs totaling \$151,132.

We determined that DNR did not have consistent coding within its accounting records for federal awards expended to ensure that it captured the accurate amount of "Total Expended and Distributed" by federal program.

Upon notification of the misstatements, DNR made the necessary adjustments to the SEFA.

- b. DNR's internal control did not ensure that it accurately reported expenditures on the SEFA as amounts "Distributed to Subrecipients."

Our review of federal awards distributed to subrecipients identified total overstatements of \$136,699 and \$342,875 for the fiscal years ended September 30, 2010 and September 30, 2011, respectively. DNR's SEFA included misstatements in the amounts "Distributed to Subrecipients" for Cooperative Forestry Assistance (*CFDA* 10.664); ARRA - Recovery Act of 2009: Wildland Fire Management (*CFDA* 10.688); Coastal Wetlands Planning, Protection and Restoration Act (*CFDA* 15.614); Outdoor Recreation - Acquisition, Development and Planning (*CFDA* 15.916); and the Recreational Trails Program (*CFDA* 20.219).

We determined that DNR did not ensure that coding within its accounting records for federal awards expended was established and effectively communicated to properly identify amounts distributed to subrecipients.

Upon notification of the misstatements, DNR made the necessary adjustments to the SEFA.

- c. DNR's internal control did not ensure that it identified and separately reported all federal programs for which DNR expended federal awards on its SEFA.

DNR reported \$17,447 of federal awards as expended for the ARRA - Recovery Act of 2009: Wildland Fire Management (*CFDA* 10.688) that DNR should have identified and reported as federal awards expended for the ARRA - Recovery Act of 2009: Capital Improvement and Maintenance (*CFDA* 10.687) for the fiscal year ended September 30, 2010. The ARRA - Recovery Act of 2009: Capital Improvement and Maintenance was not included on DNR's SEFA.

OMB Circular A-133 requires that departments receiving ARRA funds complete the SEFA and include *CFDA* numbers provided in federal ARRA awards/subawards and associated expenditures.

In addition, DNR did not identify \$480,000 of federal awards expended for the Enhanced Hunter Education and Safety Program (*CFDA* 15.626). DNR reported the Enhanced Hunter Education and Safety Program within the Fish and Wildlife Cluster as *CFDA* 15.611 on the SEFA for the two-year period ended September 30, 2011.

We determined that DNR did not properly code its expenditures to ensure that they were reported under the proper *CFDA* Program.

Upon notification of the omission, DNR made the necessary adjustments to the SEFA to include these programs.

- d. DNR's internal control did not ensure that it properly presented the titles of federal programs, classified federal awards expended as direct or pass-through, identified clustered federal programs, or presented notes to the SEFA.

Upon notification of the incorrect and missing items, DNR made the necessary adjustments to the SEFA.

RECOMMENDATION

We recommend that DNR improve its internal control over financial reporting to ensure that its SEFA is prepared in accordance with OMB Circular A-133 and State financial management policies.

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

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires the auditor to test key controls at a level that would provide sufficient evidence that the established control structure would provide a high probability that material federal program noncompliance would be prevented or detected and corrected. This requires that the auditor set the tolerable exception rate of occurrence at a very low level. During the audit fieldwork, the auditor, in close consultation with the auditee, identifies the key controls that the auditee has established to ensure federal program compliance. In those cases in which the auditor's tests of key controls identify exception rates in excess of the tolerable exception rate of occurrence, the auditor must generally report the observed exception rate in the report finding.

Further, Circular A-133 requires the auditor to report in this section of the audit report known questioned costs that are greater than \$10,000 for a type of compliance requirement for a major program and known questioned costs that are less than

* See glossary at end of report for definition.

\$10,000 for a type of compliance requirement for a major program if it is likely that total questioned costs would exceed \$10,000.

As a result of these low required reporting thresholds, the reader may note that, in some cases, the observed exception rates of occurrence and reported known questioned costs appear insignificant in relation to the overall federal expenditures of the auditee. After the audit report is filed with the federal audit clearinghouse, the responsible federal agency is required to issue a management decision within six months of the receipt of the audit report. The management decision may include a request for the return of the known questioned costs.

FINDING (7511203)

3. Cooperative Forestry Assistance, CFDA 10.664

U.S. Department of Agriculture	CFDA 10.664: Cooperative Forestry Assistance
Grant Agreement Numbers:	Award Periods:
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
08-DG-11420004-310	04/01/2008 - 04/01/2010
09-DG-11420004-135	10/01/2008 - 09/30/2010
09-DG-11420004-313	08/01/2009 - 09/30/2011
10-DG-11420004-058	10/01/2010 - 09/30/2012
10-DG-11420004-079	10/01/2009 - 09/30/2011
11-DG-11420004-267	08/31/2011 - 09/30/2012
	Known Questioned Costs: \$0

DNR's internal control over the Cooperative Forestry Assistance Program did not ensure compliance with federal laws and regulations regarding eligibility and reporting. In addition, DNR had not established internal control to ensure that the Cooperative Forestry Assistance Program complied with federal laws and regulations regarding procurement and suspension and debarment.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Cooperative Forestry Assistance Program awards.

Federal expenditures for the Cooperative Forestry Assistance Program totaled \$4,384,762 for the two-year period ended September 30, 2011.

Our review of Cooperative Forestry Assistance Program expenditures and related program files disclosed:

a. Eligibility

DNR's internal control did not include an effective process to ensure that it obtained complete and accurate applications for subrecipient awards. As a result, DNR provided federal awards to subrecipients that did not demonstrate their eligibility.

Our review of 43 applications for subrecipient awards disclosed:

- (1) DNR provided federal awards to 3 (7.0%) of 43 subrecipients that did not indicate whether they were suspended or debarred from receiving federal awards in their grant applications. We also noted one instance in which a subrecipient checked "yes" that it was suspended or debarred on its application and DNR still provided the subrecipient a federal award. If an applicant is suspended or debarred, it makes the applicant ineligible to receive federal awards. We verified that none of the 4 subrecipients were suspended or debarred through a review of the Excluded Parties List System (EPLS); however, without verifying that applicants are not suspended or debarred, DNR cannot ensure that it only enters into contracts with eligible subrecipients.
- (2) DNR provided federal awards to 2 (4.7%) of 43 subrecipients that did not include the population of the rural area that the federal awards would serve in the subrecipients' grant applications. Eligibility for the grants was dependent upon the population of the rural area served. We determined through reviewing census information that the 2 subrecipients were eligible; therefore, the awards that DNR granted to the subrecipients did not result in questioned costs. Without requiring complete and accurate applications, DNR cannot ensure that it distributes awards only to eligible subrecipients.

DNR's Cooperative Forestry Assistance Program eligibility process varies by each grant agreement. Eligibility requirements for subrecipient awards are inherently specified in each grant agreement that DNR executes with

the U.S. Department of Agriculture. In addition, Title 7, Part 3016, Section 35 of the *Code of Federal Regulations** (CFR) requires DNR to ensure that awards are not made to subrecipients that are suspended or debarred from participating in federal assistance programs.

b. Procurement and Suspension and Debarment

DNR's internal control did not ensure that subrecipients that received federal awards were not suspended or debarred.

To comply with suspension and debarment requirements, DNR collected a certification from the subrecipient and vendor through language in its contracts. We reviewed 84 randomly selected subrecipient and vendor contracts and determined that 10 (11.9%) contracts did not include language that informed the contractors that by signing the contract, they were certifying that they had not been suspended or debarred. We verified, through review of the EPLS, that none of the subrecipients associated with the 10 contracts were suspended or debarred. These 10 were related to a grant that did not include the certification in its standard contract language.

Federal regulation 7 CFR 3016.35 requires that the State not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in federal assistance programs.

c. Reporting

DNR's internal control did not ensure that it reported actual levels of expenditure activity in its performance reports.

Our review of two annual performance reports for one grant disclosed that DNR did not have a process to accumulate actual expenditures incurred by specified categories. As a result, DNR reported only estimated levels of expenditure activity in its performance reports and did not provide a comparison of the actual results to planned results as required. Total program costs for the grant were \$184,100 and \$575,022 for fiscal years 2010-11 and 2009-10, respectively.

* See glossary at end of report for definition.

Federal regulations 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 noted a similar condition in our prior two audits. During the prior audit periods, DNR reported actual levels of expenditure activity but did not always maintain documentation to support the amounts reported. DNR informed us that during the current audit period DNR began reporting estimated levels of expenditure activity because accumulating and retaining support for the actual activity was not practical given the voluminous amount of transactions. DNR did have support for the rationale used in the percentage allocation for the estimated levels of expenditure activity.

RECOMMENDATIONS

We recommend that DNR improve its internal control over the Cooperative Forestry Assistance Program to ensure its compliance with federal laws and regulations regarding eligibility.

We also recommend that DNR establish internal control to ensure compliance with Cooperative Forestry Assistance Program federal laws and regulations regarding procurement and suspension and debarment.

We again recommend that DNR improve the internal control over the Cooperative Forestry Assistance Program to ensure its compliance with federal laws and regulations regarding reporting.

FINDING (7511204)

4. ARRA - Recovery Act of 2009: Wildland Fire Management, CFDA 10.688

U.S. Department of Agriculture	<i>CFDA</i> 10.688: ARRA - Recovery Act of 2009: Wildland Fire Management
Grant Agreement Numbers: 10-DG-11244419-038 09-DG-11420004-603 10-CA-11420004-619	Award Periods: 10/09/2009 - 12/31/2011 06/29/2009 - 09/30/2010 11/15/2009 - 09/30/2011
	Known Questioned Costs: \$0

DNR's internal control over the ARRA - Recovery Act of 2009: Wildland Fire Management Program did not ensure compliance with federal laws and regulations regarding 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 ARRA - Recovery Act of 2009: Wildland Fire Management Program.

Federal expenditures for the ARRA - Recovery Act of 2009: Wildland Fire Management Program totaled \$2,661,544 for the two-year period ended September 30, 2011.

Our review of the ARRA - Recovery Act of 2009: Wildland Fire Management Program expenditures and related program files disclosed:

a. Procurement and Suspension and Debarment

- (1) DNR's internal control did not ensure compliance with DTMB policies and ARRA guidance requiring State Administrative Board approval and ARRA related provisions for awards of grants, contracts, and contract amendments. We reviewed 3 vendor contracts and 1 landowner incentive grant and determined that DNR did not obtain State Administrative Board approval for the landowner incentive grant. In addition, we determined that DNR did not include the required ARRA provisions in the landowner incentive grant agreement. DNR informed us that it was not aware that the landowner incentive grant required State Administrative Board approval, which resulted in the exclusion of the ARRA related provisions.

DTMB Administrative Guide procedure 0620.01 and State Administrative Board Resolution 2003-1 require approval by the State Administrative Board prior to the grant or contract execution (with the exception of emergency contracts involving health and safety and contracts mandated by court order) for all grants and contractual agreements of \$25,000 or more, contract or grant extensions which reach the amount of \$25,000 or more, and grant or contract amendments of \$25,000 or more.

DTMB's (formerly Michigan Economic Recovery Office) "Guidance To State Agencies Regarding the Use of Funds Received Under the American Recovery and Reinvestment Act (ARRA)" requires various provisions regarding the use of ARRA related funds in grant agreements. These include, but are not limited to, the Buy American provision, Whistleblower Protection provision, and the Segregation of Funds provision.

- (2) DNR's internal control did not ensure that entities receiving subawards were not suspended or debarred.

To comply with suspension and debarment requirements, DNR collected a certification from either the vendor or grantee through language in its contracts or grant agreements. Our review of 3 vendor contracts and 1 landowner incentive grant disclosed that the landowner incentive grant agreement did not include language that informed the grantee that, by signing the grant agreement, it was certifying that it had not been suspended or debarred. We verified, through review of the EPLS, that the grantee was not suspended or debarred. DNR was not aware that grants awarded under the Landowner Incentive Program required provisions for suspension and debarment.

Federal regulation 7 *CFR* 3016.35 requires that the State not make any award or permit any award (subgrant or contract) at any tier, to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in federal assistance programs. Federal regulation 2 *CFR* 180.300 identifies the acceptable methods by which the awarding agency should verify that a recipient is not suspended or debarred.

b. Reporting

DNR's internal control did not include a data quality review process to ensure that the ARRA - Recovery Act of 2009: Wildland Fire Management Program expenditures reported in DNR's quarterly reports were subsequently adjusted to reflect actual expenditures.

Section 1512 of ARRA requires quarterly reporting of recovery funds to be submitted on the Internet site of FederalReporting.gov within 10 days after the end of each calendar quarter. Additional guidance is provided in OMB Memorandum M-09-21, which transmits government-wide guidance for carrying out the reporting requirements included in Section 1512. The Memorandum indicates that ARRA recipients have a post-submission data quality review process in place to identify significant reporting errors or material omissions of data reported. If errors or omissions are identified, DNR is to make the necessary adjustments on FederalReporting.gov between the 11th and 21st days of the reporting month.

We reviewed 8 quarterly reports and noted significant differences between reported and actual expenditures for 2 (25%) reports. DNR did not make subsequent adjustments to the amounts reported because DNR did not have a data quality review process in place. An adequate data quality review process would ensure that significant reporting errors and material omissions of data are identified and corrected subsequent to the original submission of ARRA Section 1512 reports.

RECOMMENDATION

We recommend that DNR improve its internal control over the ARRA - Recovery Act of 2009: Wildland Fire Management Program to ensure its compliance with federal laws and regulations regarding procurement and suspension and debarment and reporting.

FINDING (7511205)

5. Coastal Wetlands Planning, Protection and Restoration Act, CFDA 15.614

U.S. Department of the Interior	CFDA 15.614: Coastal Wetlands Planning, Protection and Restoration Act
Grant Agreement Numbers: C-4-M-1 C-5-L-1 C-8-M-1 C-10-L-1	Award Periods: 05/01/2006 - 09/30/2012 03/30/2007 - 12/30/2010 07/01/2008 - 09/30/2012 09/15/2008 - 09/30/2010
	Known Questioned Costs: \$0

DNR's internal control over the Coastal Wetlands Planning, Protection and Restoration Act Program did not ensure compliance with federal laws and regulations regarding subrecipient monitoring.

Internal control that does not ensure compliance with federal regulations could result in sanctions and/or disallowance for the Coastal Wetlands Planning, Protection and Restoration Act Program.

Federal expenditures for the Coastal Wetlands Planning, Protection and Restoration Act Program totaled \$1,204,404 for the two-year period ended September 30, 2011.

DNR executes agreements with its subrecipients that inform the subrecipients of federal award information and activities allowed under the grants provided. Our review of 3 subrecipient agreements disclosed that 1 (33.3%) subrecipient did not sign the agreement. This resulted in DNR being unable to verify that the subrecipient was aware of all federal award information and activities allowed as required by federal regulations. DNR implemented a standardized subrecipient agreement in 2009. The subrecipient in question was awarded the federal award in 2007, prior to the implementation of the standardized agreement.

Title 31, Section 7502(f)(2)(A) of the *United States Code* requires that all subrecipients be informed as to the *CFDA* number, *CFDA* name, award's name and number, award year, whether award is for research and development, name of federal agency, amount of the award, and activities allowed under the grant.

RECOMMENDATION

We recommend that DNR improve its internal control over the Coastal Wetlands Planning, Protection and Restoration Act Program to ensure its compliance with federal laws and regulations regarding subrecipient monitoring.

FINDING (7511206)

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.

Federal expenditures for the Outdoor Recreation - Acquisition, Development and Planning Program totaled \$1,632,081 for the two-year period ended September 30, 2011.

During our audit period, DNR did not have a process to conduct post-completion project inspections and communicate those inspection results to the National Park Service. DNR informed us that it had approximately 844 overdue post-completion inspections as of September 30, 2011. Without conducting post-completion inspections, DNR cannot ensure that projects funded with Land and Water Conservation Fund (LWCF) assistance are continually maintained for public recreation use. Failure to ensure that lands and facilities purchased with LWCF are maintained for public recreational use could result in loss of federal funds and/or include the State's suspension and debarment until compliance or remedial action is taken.

Chapter 7A, section 6b(4) and chapter 8, section M.1 of the Land and Water Conservation Fund Federal Financial Assistance Manual requires the completion of post-completion inspections and that the results 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 issue in our prior two single audits. DNR indicated that it would comply by November 30, 2008. DNR informed us it could not comply because of high levels of employee turnover.

RECOMMENDATION

We again recommend that DNR improve its internal control over the Outdoor Recreation - Acquisition, Development and Planning Program to ensure compliance with federal laws and regulations regarding reporting.

FINDING (7511207)

7. Recreational Trails Program, CFDA 20.219

U.S. Department of Transportation	CFDA 20.219: Recreational Trails Program
Grant Agreement Numbers: Various	Award Periods: Various
	Known Questioned Costs: \$0

DNR had not established internal control to ensure that the Recreational Trails Program complied with federal laws and regulations regarding procurement and suspension and debarment.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Recreational Trails Program awards.

Federal expenditures for the Recreational Trails Program totaled \$4,179,998 for the two-year period ended September 30, 2011.

To comply with suspension and debarment requirements, DNR collected a certification from the vendor through language in its contracts. We reviewed 8 judgmentally selected vendor contracts and determined that 1 (12.5%) did not include language that informed the contractors that by signing the contract, they were certifying that they had not been suspended or debarred. This one contract was with a local township for services provided by that township. DNR informed us that it was not aware that this township contract should have included provisions for suspension and debarment. However, we verified through review of the EPLS that the township was not suspended or debarred.

Federal regulation 49 *CFR* 18.35 requires that the State not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in federal assistance programs.

RECOMMENDATION

We recommend that DNR establish internal control to comply with Recreational Trails Program federal laws and regulations regarding procurement and suspension and debarment.

FINDING (7511208)

8. Boating Safety Financial Assistance, CFDA 97.012

U.S. Department of Homeland Security	CFDA 97.012: Boating Safety Financial Assistance
Grant Agreement Numbers: 10.01.26 11.01.26	Award Periods: 10/01/2009 - 09/30/2010 10/01/2010 - 09/30/2011
	Known Questioned Costs: \$177,112

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 and reporting. As a result, we identified known questioned costs of \$177,112.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Boating Safety Financial Assistance Program awards.

DNR reported federal expenditures for the Boating Safety Financial Assistance Program of \$13,911,889.

Our review of Boating Safety Financial Assistance Program expenditures and related 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.

Our review of 40 Boating Safety Financial Assistance Program expenditures disclosed that DNR was unable to provide the Certificate of Payment for one expenditure transaction charged to the Boating Safety Financial Assistance Program. As a result, DNR could not ensure that the expenditure totaling \$177,112 was an allowable cost. DNR documents its expenditures for boating access improvement projects with the Certificate of Payment and requires it to contain both the signature of the vendor and the DNR project engineer.

Appendix B, section C, of federal regulation 2 *CFR* 225 requires that costs charged to federal awards must be adequately documented and consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities of the governmental unit.

b. Reporting

DNR's internal control did not ensure that data it reported to the United States Coast Guard regarding the Boating Safety Financial Assistance Program was properly supported by Program records.

Our review of the fiscal year 2009-10 and the fiscal year 2010-11 annual Boating Safety Financial Assistance Program performance reports disclosed that DNR did not maintain support for information included in the reports. DNR did not maintain records to support 5 (28%) of the 18 judgmentally selected report elements we reviewed for DNR's fiscal year 2009-10 report and 2 (11%) of the 19 judgmentally selected report elements we reviewed for the fiscal year 2010-11 report.

DNR management informed us that it was not DNR's practice to maintain historical records of all the specific report elements included in its Boating Safety Financial Assistance Program performance reports.

Federal regulation 49 *CFR* 18.40 requires DNR to submit annual performance reports for Boating Safety Financial Assistance Program. In addition, federal regulation 44 *CFR* 13 requires DNR to maintain all financial and programmatic records, supporting documents, statistical records, and other records of grantees considered as pertinent to program regulations or the grant agreement for three years from the day the grantee or subgrantee submits to the awarding agency its single or last expenditure report for that period.

RECOMMENDATION

We recommend that DNR improve its internal control over the Boating Safety Financial Assistance Program to ensure compliance with federal laws and regulations regarding allowable costs/cost principles and 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
Summary Schedule of Prior Audit Findings
As of June 11, 2012

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL STATEMENTS AND FINANCIAL SCHEDULES

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 2007 through September 30, 2009
Finding Number: 7511001
Finding Title: Service Organization Controls

Finding: 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.

Agency Comments: DNR held a telephone conversation with the third party service organization in July 2010 and strongly encouraged it to complete a SAS 70* audit by October 2010. DNR stated that the issue was brought up in several weekly status meetings after that time and, on October 19, 2010, the vendor indicated to DNR that it is in the process of hiring an auditor to do the SAS 70 audit. On October 26, 2010, the vendor indicated the SAS 70 audit would be a type 2 audit. The third party service organization has informed DNR that it has contracted with an accounting firm to prepare such a document compliant with the new SSAE 16* standards as of June 30, 2012. The Department of Technology, Management, and Budget (DTMB) is assisting DNR with compliance activities relating to the performance of this vendor. DNR anticipates the issue to be resolved by September 30, 2012.

* See glossary at end of report for definition.

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2007 through September 30, 2009

Finding Number: 7511002

Finding Title: Cash Management

Finding: DNR needs to improve its internal control over requests of federal reimbursement to help ensure timely requests of federal funds.

Agency Comments: DNR is requesting federal reimbursement on a monthly basis whenever possible.

Audit Period: October 1, 2007 through September 30, 2009

Finding Number: 7511003

Finding Title: Internal Control Over Accounts Payable and Encumbrances

Finding: 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.

Agency Comments: DNR held various year-end closing training sessions that were attended by finance staff from every division, including staff from several field locations. The training included a discussion on the proper recording of accounts payable and encumbrances. In July 2010, DNR sent letters to each community that has an active grant-in-aid project and asked them to estimate their expenditures as of September 30, 2010. DNR then completed follow-up letters to any communities that did not respond. DNR used these letters to help establish accounts payables for the applicable project. DNR is also continuing to have the chief accountant review any accounts payables established in excess of \$500,000 prior to being released in the accounting system.

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

Finding Number: 7510801

Finding Title: Internal Control Over Accounts Payable

Finding: DNR's internal control over recording accounts payable for the 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 and 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 Part II, Chapter 14, Section 100 of the State of Michigan 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 Not Corrected or Partially Corrected:

Audit Period: October 1, 2007 through September 30, 2009

Finding Number: 7511004

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 activities allowed or unallowed; allowable costs/cost principles; matching, level of effort, and earmarking; procurement and suspension and debarment; and reporting.

Agency Comments: DNR stated that memorandums were issued to all Forest Management Division employees reminding them to follow DNR policies 15.01-02, 21.15-02, and 21.15-04. Policy 15.01-02 requires a hard copy of the time sheet be signed by the employee and maintained for audit purposes in cases in which an employee did not submit his or her own time in the Data Collection and Distribution System (DCDS) and the costs were charged to federal grants. Policies 21.15-02 and 21.15-04 refer to time and attendance for employees without DCDS access and a time and attendance overview. DNR stated the memorandum addressed the importance of maintaining appropriate procurement documentation and required employees to retain a copy or scan all documentation before sending originals to the central office. DNR stated that an additional memorandum was sent to applicable program staff on October 20th regarding performance reports and maintaining all grant documentation in the corresponding files. The memorandum also required copies of backup documentation for any amounts reported in the performance reports be forwarded to Lansing so they can be kept centrally in the Forest Management Division in Lansing.

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 understand the requirements and are 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 Excluded Parties List System from federal procurement or non-procurement programs. The Office of 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, 2007 through September 30, 2009

Finding Number: 7511006

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 reporting.

Agency Comments: DNR is moving to a self-certification process to address the backlog of overdue post-completion inspection reports. DNR stated that the grantees will complete a self-certification form and submit it to DNR. DNR will then perform site visits of approximately 10% of the self-certified grant projects. The post-completion inspections will be tracked on a spreadsheet that shows all of the projects that need to be inspected and the date of the last inspection. This will allow DNR to track the status of inspections. Due to the magnitude of the inspection backlog and the staff shortages DNR is experiencing, DNR anticipates having this completed by December 31, 2011.

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 controls 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: The Office of 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 Findings That Have Been Fully Corrected:

Audit Period: October 1, 2007 through September 30, 2009
Finding Number: 7511005
Finding Title: Fish and Wildlife Cluster, *CFDA* 15.605 and 15.611

Finding: 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.

Agency Comments: DNR stated that the missing certification was from fiscal year 2007-08. DNR added that from fiscal year 2008-09 and forward the required certifications were completed and maintained.

DEPARTMENT OF NATURAL RESOURCES

Corrective Action Plan

As of June 8, 2012

FINDINGS RELATED TO THE FINANCIAL STATEMENTS AND FINANCIAL SCHEDULES

Finding Number: 7511201

Finding Title: Service Organization Controls

Management Views: The Department of Natural Resources (DNR) agrees with Finding 7511201 and will comply with the corresponding recommendation.

Planned Corrective Action: DNR has requested that the service organization conduct an independent audit or evaluation (SSAE 16* compliant) to obtain the necessary assurances regarding internal control. The third party service organization has informed DNR that it has contracted with an accounting firm to prepare such a document as of June 30, 2012. The Department of Technology, Management, and Budget (DTMB) is assisting DNR with compliance activities relating to the performance of this vendor.

Anticipated Completion Date: September 30, 2012

Responsible Individual: Denise Gruben, Manager, Customer Systems

Finding Number: 7511202

Finding Title: Preparation of the Schedule of Expenditures of Federal Awards (SEFA)

Management Views: DNR agrees with Finding 7511202 and will comply with the corresponding recommendation.

* See glossary at end of report for definition.

Planned Corrective Action: DNR has corrected parts a., c., and d. of Finding 7511202. Part b. will be addressed with the development of a process to enable the divisions to easily identify payments to subrecipients.

Anticipated Completion Date: February 1, 2013 (Part b.)

Responsible Individual: Eric Sink, Federal Aid Coordinator, Finance and Operations Division.

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 7511203
Finding Title: Cooperative Forestry Assistance, *CFDA* 10.664

Management Views: DNR agrees with Finding 7511203 and will comply with the corresponding recommendations.

Planned Corrective Action:

- Part a. Eligibility: Program staff will be more diligent in reviewing forms to ensure subgrantee eligibility. Staff have already reviewed documentation in the current grant cycle to ensure that all necessary documentation was included.
- Part b. Procurement and Suspension and Debarment: The Arbor Day mini-grant program that Forest Resources Division administered in the past is no longer being utilized. If DNR administers this grant again in the future, the necessary language will be included.
- Part c. Reporting: DNR will adjust account coding beginning with fiscal year 2012-13 to better

align with the grant reporting categories. This will provide for more accurate reporting of expenditures for each grant category.

Anticipated Completion Date: Part a. Eligibility: Completed

Part b. Procurement and Suspension and Debarment: Will be added if program is utilized in the future.

Part c. Reporting: Establishment of account coding will happen prior to fiscal year 2012-13 (October 1, 2012).

Responsible Individual: Bill O'Neill, Acting Chief, Forest Resources Division

Finding Number: 7511204

Finding Title: ARRA - Recovery Act of 2009: Wildland Fire Management, *CFDA* 10.688

Management Views: DNR agrees with Finding 7511204 and will comply with the corresponding recommendation.

Planned Corrective Action: Part a.(1) Administrative Board Approval: Steps will be taken to ensure future landowner incentive grants that exceed the financial threshold value will receive State Administrative Board approval.

Part a.(2) Suspension and Debarment: DNR will update the agreement language for these grants so that landowners certify by signature that they have not been suspended or debarred from working

with the federal government. Furthermore, DNR staff will check the suspension and debarment listing to verify landowner eligibility before awarding a landowner grant.

Part b. Quarterly Reports: The grant is now closed and no further action is needed.

Anticipated Completion Date: August 1, 2012.

Responsible Individual: Russ Mason, Chief, Wildlife Division

Finding Number: 7511205

Finding Title: Coastal Wetlands Planning, Protection and Restoration, *CFDA* 15.614

Management Views: DNR agrees with Finding 7511205 and will comply with the corresponding recommendation.

Planned Corrective Action: DNR has instituted subrecipient monitoring procedures to ensure compliance with federal laws and regulations. For all subrecipients, DNR will have a signed written agreement with the subrecipient that specifies the *CFDA* number, subrecipient reporting requirements, scope of work, requirements of the grant agreement, and relevant State and federal regulations.

Anticipated Completion Date: September 30, 2012

Responsible Individual: Christine Hanaburgh, Acting Federal Aid Coordinator, Wildlife Division

Finding Number: 7511206
Finding Title: Outdoor Recreation - Acquisition, Development and Planning, *CFDA* 15.916

Management Views: DNR agrees with Finding 7511206 and will comply with the corresponding recommendation. Note: Funding is not provided to the State to comply with National Park Service (NPS) mandated perpetual monitoring requirements.

Planned Corrective Action: DNR will work closely with NPS to verify which projects are outstanding. DNR has developed a process to complete the backlog of delinquent post-completion inspections through a self-certification process. It will be initiating a pilot project in early summer 2012 and will then move forward with projects in all 83 counties in Michigan. DNR will also continue to complete inspections of projects with its own staff to ensure compliance with NPS requirements.

Anticipated Completion Date: To be determined; however, DNR will make consistent progress until backlog has been eliminated.

Responsible Individual: Steve DeBrabander, Section Manager, Grants Management

Finding Number: 7511207
Finding Title: Recreational Trails Program, *CFDA* 20.219

Management Views: DNR agrees with Finding 7511207 and has complied with the corresponding recommendation.

Planned Corrective Action: The Forest Resources Division will include suspension and debarment controls within the grant writing process.

Anticipated Completion Date: The corrective action has been completed.

Responsible Individual: Bill O'Neill, Acting Chief, Forest Resources Division

Finding Number: 7511208

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

Management Views: DNR agrees with Finding 7511208 and will comply with the corresponding recommendation.

Planned Corrective Action: Part a. DNR will work with DTMB to ensure adequate records are maintained according to the required retention schedule and available when needed. DNR will work on file management modifying the process used for checking out documentation. DNR will also shorten time between when the document is processed in MAIN and when the document is filed in the project file.

Part b. DNR will ensure that it retains printed, hard-copy data inquiry reports to support future performance reporting.

Anticipated Completion Date: October 1, 2011 (Part a.)
April 5, 2012 (Part b.)

Responsible Individuals: Jacklin Blodgett, Program Services Chief (Part a.)
Lt. Andrew Turner, Supervisor, Recreational Safety Section (Part b.)

GLOSSARY

Glossary of Acronyms and Terms

American Recovery and Reinvestment Act of 2009 (ARRA)	An economic stimulus package enacted by the 111th United States Congress in February 2009.
<i>Catalog of Federal Domestic Assistance (CFDA)</i>	The catalog that provides a full listing, with detailed program descriptions, of all federal programs available to state and local governments.
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.
<i>Code of Federal Regulations (CFR)</i>	The codification of the general and permanent rules published by the departments and agencies of the federal government.
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).
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 and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

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 and correct, misstatements on a timely basis.
DNR	Department of Natural Resources.
DNRE	Department of Natural Resources and Environment.
DTMB	Department of Technology, Management, and Budget.
EPLS	Excluded Parties List System.
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.
GAAP	accounting principles generally accepted in the United States of America.
GASB	Governmental Accounting Standards Board.
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.

LWCF	Land and Water Conservation Fund.
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 deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.
material weakness in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements and/or financial schedules will not be prevented, or detected and corrected, on a timely basis.
MNRTF	Michigan Natural Resources Trust Fund.
MSPEF	Michigan State Parks Endowment Fund.
NPS	National Park Service.
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.
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.
SAS 70	Statement on Auditing Standards No. 70, <i>Service Organizations</i> issued by the American Institute of Certified Public Accountants.
SEFA	schedule of expenditures of federal awards.
significant deficiency in internal control over federal program compliance	A deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.
significant deficiency in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
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 Government Auditing Standards 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>
SSAE 16	Statement on Standards for Attestation Engagements No. 16, Reporting on Controls at a Service Organization, issued by the American Institute of Certified Public Accountants.
subrecipient	A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.
unqualified opinion	An auditor's opinion in which the auditor states that: <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; orb. 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.

U.S. Office of
Management and
Budget (OMB)

A cabinet-level office that assists the President in overseeing the preparation of the federal budget and in supervising its administration in executive branch agencies.

