

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

DEPARTMENT OF NATURAL RESOURCES

October 1, 1995 through September 30, 1997

EXECUTIVE DIGEST

DEPARTMENT OF NATURAL RESOURCES

INTRODUCTION

This report contains the results of our financial audit*, including the provisions of the Single Audit Act, of the Department of Natural Resources (DNR) for the period October 1, 1995 through September 30, 1997.

AUDIT PURPOSE

This financial audit of DNR was conducted as part of the constitutional responsibility of the Office of the Auditor General and is required on a biennial basis by Act 251, P.A. 1986, to satisfy the requirements of the Single Audit Act of 1984 and federal Office of Management and Budget Circular A-128, *Audits of State and Local Governments*.

BACKGROUND

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

DNR, originally established by Act 17, P.A. 1921 (Sections 299.1 - 299.6 of the *Michigan Compiled Laws*), was re-established by Act 451, P.A. 1994 (Sections 324.101 - 324.9010 of the *Michigan Compiled Laws*). DNR operates under the direction of the Natural Resources Commission. The seven members of the Commission are appointed by the Governor, with the advice and consent of the Senate, and serve four-year

* See glossary on page 75 for definition.

terms. The Commission appoints the director who carries

out DNR policy and program development under the overall direction of the Commission.

On August 1, 1995, the Governor issued Executive Order 1995-18, which divided DNR into two departments: DNR and the Department of Environmental Quality (DEQ). The Executive Order took effect on October 1, 1995 and transferred all the statutory authority, powers, duties, functions, and responsibilities for environmental regulation from DNR to DEQ.

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

DNR's general operations are accounted for in the State's General Fund. DNR administers conservation and recreation related special revenue funds, a capital projects fund, and enterprise funds. As of September 30, 1997, DNR had approximately 1,800 full-time employees, and its General Fund expenditures and operating transfers out and special revenue fund expenditures for fiscal year 1996-97 were approximately \$229.3 million.

**AUDIT OBJECTIVES
AND CONCLUSIONS**

Audit Objective: To assess the adequacy of DNR's internal control structure*, including applicable administrative controls related to the management of federal financial assistance programs.

* See glossary on page 75 for definition.

Conclusion: Our assessment of DNR's internal control structure disclosed one material weakness*:

- DNR had not established proper internal controls over federal grant accounting and federal financial reporting. In addition, DNR did not maintain complete documentation and accounting records to support the schedule of federal financial assistance and certain financial reports submitted to federal agencies. (Finding 1)

Our assessment also disclosed reportable conditions* involving motor vehicle permits and the Parks and Recreation Division payroll cost distribution (Findings 2 and 3).

In addition, our assessment indicated that DNR was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.

Audit Objective: To assess DNR's compliance with both State and federal laws and regulations that could have a material effect on DNR's financial statements, its financial schedules, or any of its major federal financial assistance programs.

Conclusion: Our assessment of compliance with laws and regulations did not disclose any instances of noncompliance that could have a material effect on DNR's financial statements, its financial schedules, or any of its major federal financial assistance programs. However,

* See glossary on page 75 for definition.

our assessment disclosed reportable conditions related to post-completion inspections and subrecipient monitoring (Findings 4 and 5).

Audit Objective: To audit DNR's financial statements and schedules as of and for the fiscal years ended September 30, 1997 and September 30, 1996.

Conclusion: We expressed an unqualified opinion on DNR's financial statements and schedules. However, our audit disclosed a reportable condition related to federal revenue from Schools and Roads grants (Finding 6).

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Department of Natural Resources for the period October 1, 1995 through September 30, 1997. Our audit was conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

This audit does not include the two enterprise funds: the Department of Natural Resources Magazine Fund, which we audit separately, and the Mackinac Island State Park Commission, which is audited annually by a public accounting firm.

Our audit objective for the assessment of the internal control structure included an evaluation of DNR's implementation of the requirements for establishing and maintaining systems of internal accounting and administrative control, as set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws*.

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

Our report contains 6 findings and 8 corresponding recommendations. DNR's preliminary response indicates that it agrees with all 8 recommendations.

DNR had complied with 14 of the 15 prior audit recommendations included within the scope of our current audit. We repeated the other prior audit recommendation in this report.

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

Dear Mr. Charters and Mr. Cool:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Natural Resources for the period October 1, 1995 through September 30, 1997.

This report contains our executive digest; description of agency; audit objectives, audit scope, and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; and independent auditor's reports on the internal control structure, on compliance with laws and regulations, on the financial statements, and on the financial schedules. This report also contains the Department of Natural Resources' financial statements and schedules and notes to financial statements and schedules; supplemental financial statements and schedules; a schedule of questioned costs and a schedule of immaterial noncompliance, presented as supplemental information; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

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

AUDITOR GENERAL

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Description of Agency

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

DNR, originally established by Act 17, P.A. 1921 (Sections 299.1 - 299.6 of the *Michigan Compiled Laws*), was re-established by Act 451, P.A. 1994 (Sections 324.101 - 324.9010 of the *Michigan Compiled Laws*). DNR operates under the direction of the Natural Resources Commission. The seven members of the Commission are appointed by the Governor, with the advice and consent of the Senate, and serve four-year terms. The Commission appoints the director who carries out DNR policy and program development under the overall direction of the Commission.

On August 1, 1995, the Governor issued Executive Order 1995-18, which divided DNR into two departments: DNR and the Department of Environmental Quality (DEQ). The Executive Order took effect on October 1, 1995 and transferred all the statutory authority, powers, duties, functions, and responsibilities for environmental regulation from DNR to DEQ.

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

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

DNR's general operations are accounted for in the State's General Fund. DNR administers conservation and recreation related special revenue funds, a capital projects fund, and enterprise funds. As of September 30, 1997, DNR had approximately 1,800 full-time employees, and its General Fund expenditures and operating transfers out and special revenue fund expenditures for fiscal year 1996-97 were approximately \$229.3 million.

**Audit Objectives, Audit Scope,
and Agency Responses and Prior Audit Follow-Up**

Audit Objectives

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

1. To assess the adequacy of DNR's internal control structure, including applicable administrative controls related to the management of federal financial assistance programs.
2. To assess DNR's compliance with both State and federal laws and regulations that could have a material effect on DNR's financial statements, its financial schedules, or any of its major federal financial assistance programs.
3. To audit DNR's financial statements and schedules as of and for the fiscal years ended September 30, 1997 and September 30, 1996.

Our audit objective for the assessment of the internal control structure included an evaluation of DNR's implementation of the requirements for establishing and maintaining systems of internal accounting and administrative control, as set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws*.

Audit Scope

Our audit scope was to examine the financial and other records of the Department of Natural Resources for the period October 1, 1995 through September 30, 1997. Our audit was conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

This audit does not include the two enterprise funds: the Department of Natural Resources Magazine Fund, which we audit separately, and the Mackinac Island State Park Commission, which is audited annually by a public accounting firm.

We considered DNR's internal control structure policies and procedures for its federal financial assistance programs and assessed DNR's compliance with federal laws and regulations in accordance with the Single Audit Act of 1984 and federal Office of Management and Budget Circular A-128, *Audits of State and Local Governments*, in addition to generally accepted auditing standards and *Government Auditing Standards*

issued by the Comptroller General of the United States. In addition, we followed up on the prior audit findings and questioned costs* and DNR's corrective action plan. DNR's major programs are identified on the schedule of federal financial assistance.

Agency Responses and Prior Audit Follow-Up

Our audit report contains 6 findings and 8 corresponding recommendations. DNR's preliminary response indicates that it agrees with all 8 recommendations.

The agency preliminary response which follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require DNR to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

In addition, the Single Audit Act of 1984 requires DNR to prepare and submit to its federal cognizant agency and applicable grantor agencies a plan for corrective action.

DNR had complied with 14 of the 15 prior audit recommendations included within the scope of our current audit. We repeated the other prior audit recommendation in this report.

* See glossary on page 75 for definition.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

INTERNAL CONTROL STRUCTURE

COMMENT

Audit Objective: To assess the adequacy of the Department of Natural Resources' (DNR's) internal control structure, including applicable administrative controls related to the management of federal financial assistance programs.

Conclusion: Our assessment of DNR's internal control structure disclosed one material weakness. DNR had not established proper internal controls over federal grant accounting and federal financial reporting. In addition, DNR did not maintain complete documentation and accounting records to support the schedule of federal financial assistance and certain financial reports submitted to federal agencies.

Our assessment also disclosed reportable conditions involving motor vehicle permits and the Parks and Recreation Division payroll cost distribution.

In addition, our assessment indicated that DNR was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.

FINDING

1. Federal Grant Accounting and Financial Reporting

DNR had not established proper internal controls over federal grant accounting and federal financial reporting. In addition, DNR did not maintain complete documentation and accounting records to support the schedule of federal financial assistance and certain financial reports submitted to federal agencies.

Our audit disclosed numerous errors and unexplained differences in the accounting records, reports submitted to federal agencies, and the schedule of federal financial assistance. As a result of our audit, DNR adjusted the schedule of federal financial assistance for identified differences.

We identified several internal control deficiencies that contributed to the federal grant accounting and financial reporting problems noted during our audit:

- a. DNR did not properly identify federal grant expenditures using the coding structure in the State's accounting system. As a result, grant accountants had to perform considerable manual calculations in order to determine appropriate grant expenditures. For example, in the Cooperative Forestry Assistance Program (CFDA #10.664) for the fiscal year 1996-97 consolidated grant, the

State's accounting system showed \$20,530 of federal nonpayroll expenditures. However, we identified an additional \$186,625 of expenditures that were misclassified in the accounting system for this grant.

- b. DNR did not submit federal status reports to the federal agencies on a timely basis. We reviewed 34 federal status reports for fiscal year 1996-97 and noted that 10 were between 1 and 6 months late, 9 were greater than 6 months late, and 3 were never submitted. We reviewed 29 federal status reports for fiscal year 1995-96 and noted that 10 were between 1 and 6 months late, 3 were greater than 6 months late, 1 was never submitted, and 1 did not have a date on it.
- c. DNR received reimbursement for expenditures that occurred outside of the grant award period. This resulted in questioned costs of \$24,689 for the Cooperative Forestry Assistance Program (CFDA #10.664) and \$234,837 for the Wildlife Restoration Program (CFDA #15.611). DNR had not requested an extension or received approval from the federal government to apply these expenditures to the grant (see schedule of questioned costs items 6, 15, 17, 19, and 23).
- d. DNR did not appropriately charge payroll costs to some federal grants. DNR lacked methods to ensure that accurate payroll costs were applied toward the Cooperative Forestry Assistance Program (CFDA #10.664) and Sport Fish Restoration Program grants (CFDA #15.605). For example, when time distribution reports were not submitted on a timely basis for Cooperative Forestry Assistance Program grants, a system was not in place to ensure that those costs would be included in future reimbursements. As a result, DNR underreported and underbilled payroll costs, indirect costs, and audit costs. Also, we determined that some employees charged the same number of hours for the Sport Fish Restoration Program grants every pay period. The hours charged did not match the time reported on the time sheets.
- e. DNR inappropriately charged terminal leave payments* to federal grants using a direct cost method without the approval of the federal cognizant agency. Federal Office of Management and Budget Circular A-87, Attachment B, requires the approval of the federal cognizant agency when using a direct cost method.

A directive issued on July 22, 1997 by the Office of Financial Management, Department of Management and Budget (DMB), provides guidance for appropriate allocation of terminal leave payments to the federal grant programs. One option is to allocate the costs based on a departmental indirect cost rate that has been negotiated with the cognizant agency. The other option is to allocate directly to the federal grant programs based on a plan that has been reviewed and approved by the cognizant agency.

Charging terminal leave payments to federal grants without approval resulted in questioned costs of \$8,289 for Cooperative Forestry Assistance Program (CFDA #10.664) grants, \$88,280 for Sport Fish Restoration Program (CFDA #15.605) grants, and \$91,160 for Wildlife Restoration Program (CFDA #15.611) grants (see schedule of questioned costs items 8, 13, and 26).

- f. DNR did not maintain sufficient documentation to support expenditures charged to federal grants and reported to federal agencies. This resulted in questioned costs of \$461,644 for the Cooperative Forestry Assistance Program (CFDA #10.664) grants, \$23,179 for the Sport Fish Restoration Program (CFDA #15.605) grants, and \$173,485 for the Wildlife Restoration Program (CFDA #15.611) grants (see schedule of questioned costs items 1, 3, 10, 11, 12, 14, 16, 20, 21, 24, and 25).

* See glossary on page 75 for definition.

- g. DNR did not have written procedures for federal grant accounting and reporting. Written procedures help ensure that activities are performed appropriately and that continuity exists when staff changes occur.

Federal reporting requirements and DNR's method of tracking federal expenditures are very complex. The accounting and reporting errors have resulted in both underbillings and overbillings to federal agencies. The lack of proper internal controls, accurate accounting records, and documentation resulted in numerous errors and considerable staff time and audit effort to follow up variances identified in accounting records, federal reports, and the schedule of federal financial assistance (see schedule of questioned costs, items 1 through 29).

RECOMMENDATIONS

We recommend that DNR establish proper internal controls over federal grant accounting and federal financial reporting.

We also recommend that DNR maintain complete documentation and accounting records to support the schedule of federal financial assistance and certain financial reports submitted to federal agencies.

AGENCY PRELIMINARY RESPONSE

DNR agrees with these recommendations. DNR informed us that it is now using the State's coding system to provide the control point for its federal billing and is requiring divisions to use the coding system in a timely and appropriate manner as federal expenditures occur. DNR also informed us that it is using the new capabilities of the Data Collection and Distribution System (DCDS) so that duplicative systems can be discontinued.

Staff turnover and the relatively high level of issues resulting from organizational and administrative changes made this a difficult period for grant administration. As the level of change in staff and process stabilizes, DNR anticipates continued progress in this area.

Subsequent to the completion of the Office of the Auditor General's fieldwork, DNR located additional documentation to support the \$461,644 of questioned costs relative to the Cooperative Forestry Assistance Program (CFDA #10.664) and \$45,000 relative to the Wildlife Restoration Program (CFDA #15.611).

FINDING

2. Motor Vehicle Permits

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

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

DNR did not maintain accurate records of how many motor vehicle permits were sent to each State park. In addition, DNR did not require the State park managers to return the unsold or voided permits to the Parks and Recreation Division. As a result, DNR has no assurance that all revenue from the sale of motor vehicle permits was received and deposited in the State Park Improvement Fund. Revenue from motor vehicle permits totaled \$8.6 million for fiscal year 1996-97 and \$10.3 million for fiscal year 1995-96.

RECOMMENDATION

We recommend that DNR maintain proper internal controls over State park motor vehicle permits.

AGENCY PRELIMINARY RESPONSE

DNR agrees with this recommendation. DNR informed us that it made significant improvements in its internal controls in fiscal year 1997-98 and will continue to refine these controls through fiscal year 1998-99.

FINDING

3. Parks and Recreation Division Payroll Cost Distribution

DNR did not maintain complete internal controls to ensure that payroll costs were accurately allocated among the various funds in the Parks and Recreation Division.

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

In the prior audit, we found that the Division allocated payroll based on a predetermined percentage rather than employees' actual time worked. The Division responded that it would implement DCDS, which would allow for payroll charges based on actual time worked. During the current audit we found that DCDS was implemented; however, the Division continued to distribute payroll costs based on a predetermined percentage rather than actual time worked.

Allocating payroll costs using a basis other than employees' actual time worked weakens controls designed to ensure that DNR complies with funding source restrictions.

RECOMMENDATION

WE AGAIN RECOMMEND THAT DNR MAINTAIN COMPLETE INTERNAL CONTROLS TO ENSURE THAT PAYROLL COSTS ARE ACCURATELY ALLOCATED AMONG THE VARIOUS FUNDS IN THE PARKS AND RECREATION DIVISION.

AGENCY PRELIMINARY RESPONSE

DNR agrees with this recommendation. DNR informed us that it will continue to phase in the implementation of DCDS with the Parks and Recreation Division.

COMPLIANCE WITH LAWS AND REGULATIONS

COMMENT

Audit Objective: To assess DNR's compliance with both State and federal laws and regulations that could have a material effect on DNR's financial statements, its financial schedules, or any of its major federal financial assistance programs.

Conclusion: Our assessment of compliance with laws and regulations did not disclose any instances of noncompliance that could have a material effect on DNR's financial statements, its financial schedules, or any of its major federal financial assistance programs. However, our assessment disclosed reportable conditions related to post-completion inspections and subrecipient monitoring.

FINDING

4. Post-Completion Inspections

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

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

The National Park Service reported that the State of Michigan had 1,052 delinquent post-completion inspections as of December 31, 1997, which represents 66% of 1,599 active grant projects in Michigan. We examined the

dates of the last post-completion inspections and determined the amount of time that DNR was delinquent as follows:

<u>Number of Projects</u>	<u>Time Delinquent</u>
434	Less than 1 year
524	1 to 3 years
60	3 to 6 years
34	Greater than 6 years
<u>1,052</u>	

DNR completed 74 inspections during fiscal year 1996-97 and 63 inspections during fiscal year 1995-96.

According to the federal Land and Water Conservation Fund Grants Manual, failure to comply with the post-completion inspection provisions shall be considered cause for the director of the National Park Service to withhold future payments to the State on any or all current projects, withhold action on all pending projects of the State, or withhold current or future reimbursements due to the State for assistance previously paid for projects. Failure to comply with post-completion inspection provisions may also result in loss of funds from other federal grants. There are 95 additional post-completion inspection reports due for the period January through December 1998 and another 187 inspection reports due for the period January 1999 through December 2001.

RECOMMENDATION

We recommend that DNR comply with the post-completion inspection requirements of the federal Land and Water Conservation Fund Act of 1965.

AGENCY PRELIMINARY RESPONSE

DNR agrees that more post-completion inspection is warranted. The federal government does not provide funding for post-completion inspections and no long-term provision has been made for inspections of other projects. DNR informed us that it is seeking additional funding for this function.

FINDING

5. Subrecipient Monitoring

DNR did not monitor subrecipients in accordance with the Single Audit Act and federal regulations.

The Single Audit Act and federal regulations require DNR to ensure that subrecipients spend federal funds provided in accordance with applicable laws and regulations. This can be accomplished by reviewing an audit of the subrecipient or through other means, such as program reviews. DNR must also ensure that appropriate corrective action is taken within 6 months after receipt of an audit report citing instances of material noncompliance with federal laws and regulations or material weaknesses in the internal control structure.

Federal regulations define a subrecipient as ". . . any person or government department, agency, or establishment that receives Federal financial assistance to carry out a program through a State or local government, but does not include an individual that is a beneficiary of such a program."

During our audit, we noted significant improvement in DNR's efforts to monitor subrecipients. However, the following exceptions were noted during our review of DNR's monitoring efforts for its 36 subrecipients in fiscal year 1995-96:

- a. Two of the 36 subrecipients had not submitted fiscal year 1995-96 audit reports to the DNR as of June 1998. We found no documentation that DNR fulfilled its monitoring responsibility through other means for these 2 subrecipients.
- b. Six of the 34 audit reports submitted did not contain a schedule of federal financial assistance, an internal control review letter, and/or a compliance review letter. Therefore, these reports did not meet the requirements of the Single Audit Act. DNR could not provide documentation that such information was requested from the subrecipients or that required assurance was obtained through other means.
- c. One of the 34 audit reports submitted stated that there was noncompliance with laws and regulations but did not include other details regarding the noncompliance. DNR did not request further information from the subrecipient about this matter.

The monitoring of subrecipients and the follow-up of audit results need to be improved to ensure DNR's compliance with the Single Audit Act and federal regulations. DNR hired an individual to review audit reports and is increasing its efforts to obtain the required audit reports from subrecipients.

RECOMMENDATION

We recommend that DNR continue to improve its monitoring of subrecipients in accordance with the Single Audit Act and federal regulations.

AGENCY PRELIMINARY RESPONSE

DNR agrees with this recommendation. DNR informed us that it will continue its efforts to make improvements in the monitoring of subrecipients.

FINANCIAL ACCOUNTING AND REPORTING

COMMENT

Audit Objective: To audit DNR's financial statements and schedules as of and for the fiscal years ended September 30, 1997 and September 30, 1996.

Conclusion: We expressed an unqualified opinion on DNR's financial statements and schedules. However, our audit disclosed a reportable condition related to federal revenue from Schools and Roads grants.

FINDING

6. Federal Revenue From Schools and Roads Grants

DNR did not account for federal revenue from Schools and Roads - Grants to States (*CFDA* #10.665) and the corresponding distribution of the revenue to the counties in which it was generated as revenue and expenditures in the accounting records. Also, DNR had not distributed, on a timely basis, oil and gas royalties from federal acquired lands governed by the National Forest Act.

The *CFDA* specifies that Schools and Roads revenue is assistance to the State in the form of formula grants, to be used for the benefit of public schools and public roads of the county or counties in which a national forest generating the revenue is situated. Sections 1600.106 and 1600.117 of the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the Governmental

Accounting Standards Board, states that governmental fund revenues and expenditures should be recognized when they become measurable and available.

Our review disclosed that DNR recorded the receipt of federal revenue from Schools and Roads grants as a liability called "amounts held in custody for others" in the General Fund. DNR recorded the distribution of this revenue to the counties in which it was generated as a reduction of amounts held in custody for others in the General Fund. As a result, DNR's federal revenues and expenditures were understated in the General Fund by approximately \$2.5 million for each fiscal year of our audit.

Our review also disclosed that DNR had not distributed revenue for three fiscal years. Amounts required to be distributed as of September 30, 1997 were \$75,333 from fiscal year 1996-97, \$132,305 from fiscal year 1993-94, and \$124,266 from fiscal year 1992-93.

RECOMMENDATIONS

We recommend that DNR account for federal revenue from Schools and Roads grants and the corresponding distribution of the revenue to the counties in which it was generated as revenue and expenditures in the accounting records.

We also recommend that DNR distribute oil and gas royalties from federal acquired lands on a timely basis.

AGENCY PRELIMINARY RESPONSE

DNR agrees with these recommendations; however, to account for the funds in the manner recommended requires appropriation authorization not to be overexpended. DNR informed us that it has submitted a request to DMB to appropriate these funds, and DMB included the request in the Executive Budget for fiscal year 1999-2000.

With respect to distribution of oil and gas royalties, DNR informed us that the Land and Mineral Services Division (formerly the Real Estate Division) has improved its processes to ensure timely distribution of these funds. A backlog of receipts occurred during the audit period that needed to be reconciled to ensure proper distribution. These receipts are now being reconciled monthly so timely distribution is possible in the future.

Independent Auditor's Report on the
Internal Control Structure

October 28, 1998

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

Dear Mr. Charters and Mr. Cool:

We have audited the financial statements and schedules of the Department of Natural Resources as of and for the fiscal years ended September 30, 1997 and September 30, 1996 and have issued our reports thereon dated October 28, 1998. We have also audited the Department of Natural Resources' compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated October 28, 1998.

We conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements and schedules are free of material misstatement and about whether the Department complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audits for the fiscal years ended September 30, 1997 and September 30, 1996, we considered the Department's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the Department's financial statements and schedules and not to provide assurance on the internal control structure. We also considered the Department's internal control structure in order to determine our auditing procedures for the purpose of expressing

our opinion on its compliance with requirements applicable to major federal financial assistance programs, and to report on the internal control structure in accordance with OMB Circular A-128.

The management of the Department of Natural Resources is responsible for establishing and maintaining an internal control structure, which operates in conjunction with the Statewide internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements and schedules in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures, including those used in administering federal financial assistance programs, in the following categories:

Accounting Controls

- Payroll-personnel system
- Nonpayroll expenditures and accounts payable
- Revenue and accounts receivable
- Capital outlay
- Spending authorizations, transfers, and encumbrances
- Administration of federal financial assistance

Administrative Controls

- General requirements:
 - Political activity
 - Davis-Bacon Act
 - Civil rights
 - Relocation assistance and real property acquisition
 - Cash management
 - Federal financial reports
 - Allowable costs/cost principles
 - Drug-Free Workplace Act
 - Administrative requirements
- Specific requirements:
 - Types of services allowed or unallowed

- Eligibility
- Matching, level of effort, earmarking requirements
- Special reporting requirements
- Special tests and provisions
- Subrecipient monitoring

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

During the fiscal years ended September 30, 1997 and September 30, 1996, the Department of Natural Resources expended 94% and 92%, respectively, of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the Department's major federal financial assistance programs, which are identified in the accompanying schedule of federal financial assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements and schedules or to administer federal financial assistance programs in accordance with applicable laws and regulations. The reportable conditions are more fully described in Findings 1 through 3.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements and schedules being audited or that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure policies and procedures, including those used in administering federal financial assistance programs, would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following matter involving the Department's internal control structure and its operation that we consider to be a material weakness as defined above. The Department had not established proper internal controls over federal grant accounting and federal financial reporting. In addition, the Department did not maintain complete documentation and accounting records to support the schedule of federal financial assistance and certain financial reports submitted to federal agencies. This issue is fully described in Finding 1.

These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audits of the Department of Natural Resources' financial statements and schedules and of its compliance with requirements applicable to its major federal financial assistance programs for the fiscal years ended September 30, 1997 and September 30, 1996, and this report on the internal control structure does not affect our reports thereon dated October 28, 1998.

This report is intended for the information of management and the Legislature. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

Independent Auditor's Report on
Compliance With Laws and Regulations

October 28, 1998

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

Dear Mr. Charters and Mr. Cool:

We have audited the financial statements and schedules of the Department of Natural Resources as of and for the fiscal years ended September 30, 1997 and September 30, 1996 and have issued our reports thereon dated October 28, 1998.

We conducted our audit in accordance with generally accepted auditing standards and *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 and schedules are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Department of Natural Resources is the responsibility of the Department's management. As part of obtaining reasonable assurance about whether the financial statements and schedules are free of material misstatement, we performed tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements and schedules was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, the Department of Natural Resources complied, in all material respects, with the provisions referred to in the previous paragraph. With respect to items not tested, nothing came to our attention

that caused us to believe that the Department had not complied, in all material respects, with those provisions.

We have also audited the Department's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, and/or earmarking; special reporting requirements; special tests and provisions; subrecipient monitoring; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying schedule of federal financial assistance, for the fiscal years ended September 30, 1997 and September 30, 1996. The management of the Department is responsible for the Department's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards; *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to in the previous paragraph occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying schedule of questioned costs and schedule of immaterial noncompliance. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the Department of Natural Resources complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; special reporting requirements; special tests and provisions; subrecipient monitoring; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs for the fiscal years ended September 30, 1997 and September 30, 1996.

In connection with our audit of the financial statements and schedules of the Department for the fiscal years ended September 30, 1997 and September 30, 1996 and with our consideration of the Department's internal control structure used to administer federal financial assistance programs, as required by OMB Circular A-128, we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the fiscal years ended September 30, 1997 and September 30, 1996. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing types of services allowed or unallowed and eligibility that are applicable to those transactions. Also, we have applied

procedures to test the Department's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the schedule of federal financial assistance, for the fiscal years ended September 30, 1997 and September 30, 1996:

- Political activity
- Davis-Bacon Act
- Civil rights
- Relocation assistance and real property acquisition
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements
- Subrecipient monitoring

Our procedures for testing compliance with the general requirements were limited to the applicable procedures described in OMB's *Compliance Supplement for Single Audits of State and Local Governments*. Our procedures for testing compliance with the general requirements and the requirements applicable to the nonmajor programs, which are described in the previous paragraph, were substantially less in scope than an audit, the objective of which is the expression of an opinion on the Department's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second previous paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the Department of Natural Resources had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the findings and recommendations and/or the accompanying schedule of questioned costs and schedule of immaterial noncompliance.

This report is intended for the information of management and the Legislature. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

Independent Auditor's Report on
the Financial Statements

October 28, 1998

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

Dear Mr. Charters and Mr. Cool:

We have audited the accompanying combined balance sheet of the Department of Natural Resources as of September 30, 1997 and September 30, 1996 and the related combined statement of revenues, expenditures, and changes in fund balances for the fiscal years then ended. These financial statements are the responsibility of the management of the Department. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *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 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 discussed in Note 1e, the accompanying financial statements present only specific funds administered by the Department of Natural Resources and are not intended to present fairly the financial position and results of operations of the Department of Natural Resources, the State of Michigan, or the State's special revenue and capital projects funds.

In our opinion, the combined financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Department of Natural Resources' Funds, as noted in Note 1b, as of September 30, 1997 and September 30, 1996 and the results of operations for the fiscal years then ended on the basis of accounting described in Note 1d.

Our audit was made for the purpose of forming an opinion on the Department's financial statements. The accompanying supplemental financial statements, consisting of the combining balance sheet and the combining statement of revenues, expenditures, and changes in fund balances, 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. The information in the supplemental financial statements has not been subjected to the level of auditing procedures necessary to express an opinion on those supplemental financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 28, 1998 on our consideration of the Department of Natural Resources' internal control structure and a report dated October 28, 1998 on its compliance with laws and regulations.

AUDITOR GENERAL

Independent Auditor's Report on
the Financial Schedules

October 28, 1998

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

Dear Mr. Charters and Mr. Cool:

We have audited the accompanying schedule of General Fund revenues and operating transfers and the schedule of sources and disposition of General Fund authorizations of the Department of Natural Resources for the fiscal years ended September 30, 1997 and September 30, 1996. These financial schedules are the responsibility of the management of the Department. Our responsibility is to express an opinion on these financial schedules based on our audit. The operations of the Department of Natural Resources are accounted for in the General Fund and various special revenue funds of the State of Michigan.

We conducted our audit in accordance with generally accepted auditing standards and *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 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 1e, the accompanying financial schedules include only the revenues and operating transfers and the sources and disposition of authorizations for the Department of Natural Resources' General Fund accounts, presented on the

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

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenues and operating transfers and the sources and disposition of authorizations of the Department of Natural Resources for the fiscal years ended September 30, 1997 and September 30, 1996 on the basis of accounting described in Note 1d.

Our audit was made for the purpose of forming an opinion on the Department's financial schedules. The accompanying supplemental financial schedule, the schedule of federal financial assistance, 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. The information in the supplemental financial schedule has been subjected to the auditing procedures applied in the audit of the Department's financial schedules and, in our opinion, is fairly stated in all material respects in relation to the Department's financial schedules.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 28, 1998 on our consideration of the Department of Natural Resources' internal control structure and a report dated October 28, 1998 on its compliance with laws and regulations.

AUDITOR GENERAL

Descriptions of Special Revenue Funds

GAME AND FISH PROTECTION FUND

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

MICHIGAN STATE WATERWAYS FUND

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

MARINE SAFETY FUND

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

GAME AND FISH PROTECTION TRUST FUND

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

STATE PARK IMPROVEMENT FUND

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

RECREATION BOND FUND - LOCAL PROJECTS

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

MICHIGAN NATURAL RESOURCES TRUST FUND

The State Constitution was amended in 1984 to provide for a "Michigan Natural Resources Trust Fund," which was implemented in 1985. The Fund operates under Part 19, Act 451, P.A. 1994, as amended. Most rentals, royalties, and other revenues derived from mineral, coal, oil, and gas interests on State-owned land are credited to the Fund. Part 741, Act 451, P.A. 1994, redirected a portion (\$10 million per year), previously committed to this Fund, to the Michigan State Parks Endowment Fund.

In accordance with statutory provisions, this Fund is to accumulate up to \$400 million in reserves for permanent investments. The amount accumulated toward the cap is shown as a reservation of fund balance. Earnings on investments and one third of royalty earnings are available for appropriation. Two thirds of royalty earnings are added to amounts held for permanent investments until the investment reserve reaches \$200 million. After that time, all royalties are restricted for investment and only interest is available to appropriate. Appropriated funds are used for grants to local units of government as well as State agencies to acquire or develop outdoor public recreation facilities.

MICHIGAN STATE PARKS ENDOWMENT FUND

This Fund was established in 1994 and operates under Part 741, Act 451, P.A. 1994, as amended, to finance operations, maintenance, and capital improvements at Michigan State parks. The Fund was established with a \$40 million equity transfer from the sale of the Accident Fund of Michigan to provide funds for permanent investments.

By statute, up to \$10 million per year of revenues from oil and gas bonuses, rentals, and royalties from State-owned land are to be deposited in this Fund until its accumulated principal reaches \$400 million. The Fund's investment reserve will be capped at \$800 million. The Legislature is limited to appropriating no more than \$5 million, adjusted for inflation, each year from the Fund until the cap is attained. When the Fund's reserve reaches \$800 million, only the interest and earnings in excess of the amount needed to maintain the \$800 million principal limit may be expended.

MICHIGAN NONGAME FISH AND WILDLIFE FUND

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

MICHIGAN CIVILIAN CONSERVATION CORPS ENDOWMENT FUND

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

FOREST DEVELOPMENT FUND

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

Description of Capital Projects Fund

RECREATION BOND FUND - STATE PROJECTS

This Fund was established in 1988 and operates under Part 715, Act 451, P.A. 1994, as amended. The balances remaining in the Fund reflect proceeds and investment earnings from \$70 million of general obligation bonds approved by the people in November 1988 as part of \$140 million bond package for financing State and local public recreation projects. The Act specifies that proceeds of these bonds be used to construct, expand, and develop recreational facilities at State parks.

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

	<u>Governmental Fund Types</u>			
	<u>Special Revenue Funds</u>		<u>Capital Projects Fund</u>	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
ASSETS				
Cash	\$ 32	\$ 916	\$	\$
Equity in Common Cash	396,005	382,004	5,450	6,562
Taxes, interest, and penalties receivable	89	78		
Amounts due from federal agencies	1,136	1,889		75
Inventories	21	29		
Investments	60,810	32,351		
Other assets	<u>11,954</u>	<u>9,412</u>		
Total Assets	<u>\$ 470,047</u>	<u>\$ 426,679</u>	<u>\$ 5,450</u>	<u>\$ 6,637</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants outstanding	\$ 1,434	\$ 1,003	\$	\$ 2
Accounts payable and other liabilities	19,792	18,200	65	87
Amounts due to other funds	575	677		
Deferred revenue	<u>946</u>			
Total Liabilities	<u>\$ 22,747</u>	<u>\$ 19,880</u>	<u>\$ 65</u>	<u>\$ 88</u>
Fund Balances:				
Reserves for:				
Budgetary carry-forwards:				
Encumbrances	\$ 2,709	\$ 2,476	\$	\$
Restricted revenues	29,160	26,100		
Multi-year projects	61,099	83,399		
Funds held as permanent investments	<u>264,847</u>	<u>234,565</u>		
Total Reserved	<u>\$ 357,815</u>	<u>\$ 346,539</u>	<u>\$ 0</u>	<u>\$ 0</u>
Unreserved	<u>89,484</u>	<u>60,259</u>	<u>5,385</u>	<u>6,548</u>
Total Fund Balances	<u>\$ 447,300</u>	<u>\$ 406,798</u>	<u>\$ 5,385</u>	<u>\$ 6,548</u>
Total Liabilities and Fund Balances	<u>\$ 470,047</u>	<u>\$ 426,679</u>	<u>\$ 5,450</u>	<u>\$ 6,637</u>

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

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

	Governmental Fund Types			
	Special Revenue Funds		Capital Projects Fund	
	1997	1996	1997	1996
REVENUES				
Taxes	\$ 208	\$ 221	\$	\$
From federal agencies	2,611	3,141	6	122
From licenses and permits	81,028	79,429		
From Michigan Natural Resources Trust Fund		10,000		
Royalties, interest, and other miscellaneous	<u>95,123</u>	<u>75,575</u>	<u>99</u>	<u>422</u>
Total Revenues	<u>\$ 178,969</u>	<u>\$ 168,366</u>	<u>\$ 105</u>	<u>\$ 545</u>
EXPENDITURES				
Current	\$ 119,349	\$ 114,140	\$	\$
Capital outlay	<u>27,761</u>	<u>24,965</u>	<u>1,267</u>	<u>1,811</u>
Total Expenditures	<u>\$ 147,110</u>	<u>\$ 139,105</u>	<u>\$ 1,267</u>	<u>\$ 1,811</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 31,859</u>	<u>\$ 29,261</u>	<u>\$ (1,162)</u>	<u>\$ (1,266)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers from other funds	\$ 25,284	\$ 13,900	\$	\$ 2
Operating transfers to other funds	<u>(16,641)</u>	<u>(6,969)</u>	<u>(1)</u>	<u>(2)</u>
Total Other Financing Sources (Uses)	<u>\$ 8,642</u>	<u>\$ 6,931</u>	<u>\$ (1)</u>	<u>\$ 0</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 40,502	\$ 36,192	\$ (1,163)	\$ (1,266)
Fund Balances - Beginning of fiscal year	<u>406,798</u>	<u>370,606</u>	<u>6,548</u>	<u>7,815</u>
Fund Balances - End of fiscal year	<u><u>\$ 447,300</u></u>	<u><u>\$ 406,798</u></u>	<u><u>\$ 5,385</u></u>	<u><u>\$ 6,548</u></u>

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

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

	<u>1997</u>	<u>1996</u>
REVENUES		
Federal	\$ 16,695	\$ 19,899
Local units	388	127
Licenses and permits	4,781	4,542
Miscellaneous	<u>11,658</u>	<u>11,209</u>
Total Revenues	<u>\$ 33,521</u>	<u>\$ 35,777</u>
OPERATING TRANSFERS		
From Game and Fish Protection Fund	\$	\$ 1,103
From Michigan Nongame Fish and Wildlife Fund		2
From Michigan Transportation Fund	2,828	13,589
From Environmental Response Subfund	<u>25</u>	
Total Operating Transfers	<u>\$ 2,853</u>	<u>\$ 14,694</u>
Total Revenues and Operating Transfers	<u>\$ 36,374</u>	<u>\$ 50,471</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)

	1997	1996
SOURCES OF AUTHORIZATIONS		
General purpose appropriations	\$ 53,837	\$ 31,236
Balances carried forward	22,561	45,732
Restricted financing sources in	35,880	48,700
Less: Intrafund expenditure reimbursements	(544)	(2,966)
Total	\$ 111,734	\$ 122,702
DISPOSITION OF AUTHORIZATIONS		
Gross expenditures and operating transfers out	\$ 82,783	\$ 100,320
Less: Intrafund expenditure reimbursements	(544)	(2,966)
Net expenditures and operating transfers out	\$ 82,239	\$ 97,354
Balances carried forward:		
Multi-year projects	5,677	669
Encumbrances	497	815
Restricted revenue - authorized		1,217
Restricted revenue - not authorized	23,171	21,350
Balances lapsed	1,053	1,298
Overexpended (Note 2)	(901)	(1)
Total	\$ 111,734	\$ 122,702

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

Notes to Financial Statements and Schedules

Note 1 Significant Accounting Policies

a. Change in Reporting Entity

On August 1, 1995, the Governor issued Executive Order 1995-18, which divided the Department of Natural Resources into two departments: the Department of Natural Resources (DNR) and the Department of Environmental Quality (DEQ). Effective October 1, 1995, DNR is responsible for resource management and DEQ is responsible for environmental protection. Accordingly, the accompanying financial statements and schedules reflect operating activity for DNR. The operating activity for DEQ is reported in a separately issued report.

b. Reporting Entity - Financial Statements

The accompanying financial statements report the financial position and results of operations of the following DNR-administered funds as of and for the fiscal years ended September 30, 1997 and September 30, 1996:

Special Revenue

Game and Fish Protection Fund

Michigan State Waterways Fund

Marine Safety Fund

Game and Fish Protection Trust Fund

State Park Improvement Fund

Recreation Bond Fund - Local Projects

Michigan Natural Resources Trust Fund

Michigan State Parks Endowment Fund

Michigan Nongame Fish and Wildlife Fund

Michigan Civilian Conservation Corps Endowment Fund

Forest Development Fund

Capital Projects

Recreation Bond Fund - State Projects

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

c. Reporting Entity - Financial Schedules

The accompanying financial schedules report the results of the governmental operations of DNR for the fiscal years ended September 30, 1997 and September 30, 1996. Prior to fiscal year 1995-96, the governmental operations of DNR were accounted for principally in the State's General Fund. In fiscal year 1995-96, a change in presentation (see Note 3) took place which resulted in the General Fund reflecting a smaller portion of DNR's operations. A significant portion of DNR's operations are now reported directly in the special revenue funds listed in Note 1b.

d. Basis of Accounting

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

e. Basis of Presentation

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

The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies, Budgeting and Budgetary Control, Treasurer's Common Cash, Pension Benefits and

Other Postemployment Benefits, Compensated Absences, Deposits and Investments, and Interfund Receivables and Payables.

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

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

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

Note 2 Budgeting and Budgetary Control

Appropriations in total were not exceeded for the fiscal years presented in these financial statements. However, some overexpenditures did occur as a result of accounts receivable writeoffs as follows (in thousands):

	Amount of Overexpenditure In Fiscal Year	
	1996-97	1995-96
DNR accounts in General Fund	\$901	\$1
Michigan State Waterways Fund	\$ 1	
State Park Improvement Fund	\$ 54	
Michigan Natural Resources Trust Fund	\$ 1	
Forest Development Fund	\$ 19	
Recreation Bond Fund - State Projects	\$ 40	

DNR is required to seek resolution of these overexpenditures from the Legislature. Overexpenditures of DNR's General Fund accounts are reported on the schedule of sources and disposition of General Fund authorizations.

Note 3 Change in Presentation

In prior fiscal years, accounting system limitations prevented the allocation of multi-fund appropriations into more than one fund. Many appropriations and

related expenditures of the special revenue fund category were recorded in the General Fund and were then financed by operating transfers from the related special revenue fund. Beginning in fiscal year 1995-96, multi-fund appropriations and their related expenditures were allocated directly to individual funds. This change increased direct expenditures in the special revenue fund category and reduced operating transfers out compared to the previous year.

In fiscal year 1995-96, the Michigan State Parks Endowment Fund's share of revenues from oil and gas bonus sales, rentals, and royalties from State-owned lands were deposited directly into the Fund as revenues. In fiscal year 1996-97, these revenues were deposited in the Michigan Natural Resources Trust Fund and transferred to the Michigan State Parks Endowment Fund as an operating transfer.

Note 4 Fixed Assets and General Long-Term Obligations

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

Note 5 Fund Balances Reserved for Restricted Revenue

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

	September 30	
	1997	1996
<u>Game and Fish Protection Fund</u>		
Deer Habitat Improvement	\$ 307	\$ 131
Fisheries	1,136	980
Wildlife Resource Protection	378	299
Waterfowl Area Permits Program	40	94
Turkey Program	2,571	2,432
Public Access Land Leasing	377	703
Pittman-Robertson Program	338	1,389
Dingell-Johnson Program	245	432
Duck Stamp	769	527
Waterfowl Habitat Improvement	18	38
Total	\$ 6,179	\$ 7,069
 <u>Michigan State Waterways Fund</u>		
Department of the Interior - Fish and Wildlife Service	\$	\$ 23
Marine Fuel for Resale	1,165	
Harbor Development Subfund	21,816	18,955
Total	\$ 22,981	\$ 18,978
 <u>Forest Development Fund</u>		
Forest Management Subfund		\$ 53
Total	\$ 0	\$ 53
Total Restricted Revenue	\$ 29,160	\$ 26,100

Note 6 Contingencies Related to Litigation

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

Gain Contingencies: In the event that it is determined that the credits under Section 29 in the Internal Revenue Code of the recent sale of royalties must be

distributed to the Michigan Natural Resources Trust Fund, that Fund has a contingent receivable for the amount currently recorded in the General Fund. From the overall State perspective; however, a net gain or loss contingency does not appear to exist with respect to that issue.

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

Note 7 Subsequent Event - Clean Michigan Initiative

On November 3, 1998, the electorate authorized the State to issue up to \$675 million of additional general obligation bonds for the purpose of environmental protection, cleanup, recreation, and revitalization. DNR will receive up to \$50 million of the proceeds from the bond issue for State park revitalization and up to \$50 million for local parks and recreation enhancement opportunities. State park revitalization funds will be used to address the highest priority health, safety, and environmental needs to revitalize State parks. Local parks and recreation enhancement opportunity funds will be used to award grants between \$15,000 and \$750,000 to local units of government to implement projects for recreation development and improvement, based on locally defined needs.

SUPPLEMENTAL FINANCIAL STATEMENTS AND SCHEDULES

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

	<u>Game and Fish Protection Fund</u>		<u>Michigan State Waterways Fund</u>	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
ASSETS				
Cash	\$ 5	\$ 784	\$	\$
Equity in Common Cash	19,152	12,643	47,502	41,649
Taxes, interest, and penalties receivable			89	78
Amounts due from federal agencies	463	1,460	350	41
Inventories			21	29
Investments				
Other assets	<u>4,193</u>	<u>3,095</u>		<u>269</u>
 Total Assets	 <u>\$ 23,813</u>	 <u>\$ 17,983</u>	 <u>\$ 47,962</u>	 <u>\$ 42,066</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants outstanding	\$ 304	\$ 200	\$ 81	\$ 118
Accounts payable and other liabilities	3,054	3,509	1,306	1,091
Amounts due to other funds	347	403	68	93
Deferred revenue				
 Total Liabilities	 <u>\$ 3,705</u>	 <u>\$ 4,111</u>	 <u>\$ 1,456</u>	 <u>\$ 1,303</u>
 Fund Balances:				
Reserves for:				
Budgetary carry-forwards:				
Encumbrances	\$ 384	\$ 677	\$ 389	\$ 677
Restricted revenues	6,179	7,069	22,981	18,978
Multi-year projects	369	129	12,501	13,812
Funds held as permanent investments	<u>1,788</u>	<u>1,772</u>		
Total Reserved	\$ 8,720	\$ 9,647	\$ 35,871	\$ 33,466
 Unreserved	 <u>11,389</u>	 <u>4,225</u>	 <u>10,635</u>	 <u>7,296</u>
 Total Fund Balances	 <u>\$ 20,109</u>	 <u>\$ 13,872</u>	 <u>\$ 46,506</u>	 <u>\$ 40,763</u>
 Total Liabilities and Fund Balances	 <u>\$ 23,813</u>	 <u>\$ 17,983</u>	 <u>\$ 47,962</u>	 <u>\$ 42,066</u>

This schedule continued on next page.

Marine Safety Fund		Game and Fish Protection Trust Fund		State Park Improvement Fund		Recreation Bond Fund - Local Projects	
1997	1996	1997	1996	1997	1996	1997	1996
\$ 4,104	\$ 5,011	\$ 47,457	\$ 48,018	\$ 8	\$ 10	\$ 10,893	\$ 15,940
322	154				50		
		13,659	7,214				
		991	692	20	15		
<u>\$ 4,426</u>	<u>\$ 5,165</u>	<u>\$ 62,107</u>	<u>\$ 55,924</u>	<u>\$ 12,522</u>	<u>\$ 10,693</u>	<u>\$ 10,893</u>	<u>\$ 15,940</u>
\$ 6	\$ 403	\$	\$	\$ 93	\$ 111	\$	\$ 22
56	194			1,732	1,356	4,385	6,100
3	2			3	15		2
				946			
<u>\$ 65</u>	<u>\$ 599</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,774</u>	<u>\$ 1,482</u>	<u>\$ 4,385</u>	<u>\$ 6,124</u>
\$ 10	\$ 84	\$	\$	\$ 312	\$ 146	\$	\$
	97			2,509	2,852		
		62,107	55,924				
<u>\$ 10</u>	<u>\$ 181</u>	<u>\$ 62,107</u>	<u>\$ 55,924</u>	<u>\$ 2,821</u>	<u>\$ 2,998</u>	<u>\$ 0</u>	<u>\$ 0</u>
4,351	4,386			6,926	6,214	6,507	9,816
<u>\$ 4,361</u>	<u>\$ 4,566</u>	<u>\$ 62,107</u>	<u>\$ 55,924</u>	<u>\$ 9,748</u>	<u>\$ 9,212</u>	<u>\$ 6,507</u>	<u>\$ 9,816</u>
<u>\$ 4,426</u>	<u>\$ 5,165</u>	<u>\$ 62,107</u>	<u>\$ 55,924</u>	<u>\$ 12,522</u>	<u>\$ 10,693</u>	<u>\$ 10,892</u>	<u>\$ 15,940</u>

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

	<u>Michigan Natural Resources Trust Fund</u>		<u>Michigan State Parks Endowment Fund</u>	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
ASSETS				
Cash	\$ 3	\$ 106	\$	\$
Equity in Common Cash	167,895	165,331	51,203	50,421
Taxes, interest, and penalties receivable				
Amounts due from federal agencies				
Inventories				
Investments	33,805	20,277	13,347	4,859
Other assets	<u>6,265</u>	<u>5,156</u>	<u>308</u>	<u>133</u>
 Total Assets	 <u>\$ 207,967</u>	 <u>\$ 190,871</u>	 <u>\$ 64,859</u>	 <u>\$ 55,414</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants outstanding	\$ 755	\$ 14	\$ 53	\$ 30
Accounts payable and other liabilities	7,566	4,725	391	277
Amounts due to other funds	10	11	21	19
Deferred revenue				
 Total Liabilities	 <u>\$ 8,332</u>	 <u>\$ 4,750</u>	 <u>\$ 465</u>	 <u>\$ 326</u>
 Fund Balances:				
Reserves for:				
Budgetary carry-forwards:				
Encumbrances	\$ 321	\$ 267	\$ 257	\$
Restricted revenues				
Multi-year projects	44,412	66,509	931	
Funds held as permanent investments	<u>120,254</u>	<u>104,131</u>	<u>57,798</u>	<u>50,087</u>
Total Reserved	\$ 164,987	\$ 170,908	\$ 58,985	\$ 50,087
 Unreserved	 <u>34,649</u>	 <u>15,213</u>	 <u>5,408</u>	 <u>5,000</u>
 Total Fund Balances	 <u>\$ 199,636</u>	 <u>\$ 186,121</u>	 <u>\$ 64,393</u>	 <u>\$ 55,087</u>
 Total Liabilities and Fund Balances	 <u>\$ 207,967</u>	 <u>\$ 190,871</u>	 <u>\$ 64,859</u>	 <u>\$ 55,414</u>

Michigan Nongame Fish and Wildlife Fund		Michigan Civilian Conservation Corps Endowment Fund		Forest Development Fund		Totals	
1997	1996	1997	1996	1997	1996	1997	1996
\$	\$	\$	\$	\$ 16	\$ 15	\$ 32	\$ 916
3,780	3,657	21,831	21,016	9,693	7,699	396,005	382,004
					184	89	78
						1,136	1,889
						21	29
						60,810	32,351
<u>90</u>				<u>88</u>	<u>51</u>	<u>11,954</u>	<u>9,412</u>
<u>\$ 3,870</u>	<u>\$ 3,657</u>	<u>\$ 21,831</u>	<u>\$ 21,016</u>	<u>\$ 9,797</u>	<u>\$ 7,950</u>	<u>\$ 470,047</u>	<u>\$ 426,678</u>
\$	\$	\$	\$	\$ 138	\$ 100	\$ 1,434	\$ 1,003
39	22	63		1,200	926	19,792	18,200
2	3			120	129	575	677
						946	0
<u>\$ 41</u>	<u>\$ 31</u>	<u>\$ 67</u>	<u>\$ 0</u>	<u>\$ 1,457</u>	<u>\$ 1,155</u>	<u>\$ 22,747</u>	<u>\$ 19,880</u>
\$ 115	\$ 32	\$ 5	\$	\$ 917	\$ 593	\$ 2,709	\$ 2,476
					53	29,160	26,100
				377		61,099	83,399
<u>2,900</u>	<u>2,650</u>	<u>20,000</u>	<u>20,000</u>			<u>264,847</u>	<u>234,565</u>
<u>\$ 3,015</u>	<u>\$ 2,682</u>	<u>\$ 20,005</u>	<u>\$ 20,000</u>	<u>\$ 1,294</u>	<u>\$ 647</u>	<u>\$ 357,815</u>	<u>\$ 346,539</u>
<u>814</u>	<u>944</u>	<u>1,759</u>	<u>1,016</u>	<u>7,046</u>	<u>6,148</u>	<u>89,484</u>	<u>60,259</u>
<u>\$ 3,829</u>	<u>\$ 3,626</u>	<u>\$ 21,765</u>	<u>\$ 21,016</u>	<u>\$ 8,340</u>	<u>\$ 6,795</u>	<u>\$ 447,300</u>	<u>\$ 406,798</u>
<u>\$ 3,870</u>	<u>\$ 3,657</u>	<u>\$ 21,831</u>	<u>\$ 21,016</u>	<u>\$ 9,797</u>	<u>\$ 7,950</u>	<u>\$ 470,047</u>	<u>\$ 426,679</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)

	<u>Game and Fish Protection Fund</u>		<u>Michigan State Waterways Fund</u>	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
REVENUES				
Taxes	\$	\$	\$ 208	\$ 221
From federal agencies	2,123	2,214	287	630
From licenses and permits	44,801	41,442	6,437	6,520
From Michigan Natural Resources Trust Fund				
Royalties, interest, and other miscellaneous	<u>2,520</u>	<u>2,960</u>	<u>2,777</u>	<u>3,034</u>
Total Revenues	<u>\$ 49,444</u>	<u>\$ 46,616</u>	<u>\$ 9,710</u>	<u>\$ 10,406</u>
EXPENDITURES				
Current	\$ 43,496	\$ 41,311	\$ 12,711	\$ 13,115
Capital outlay	<u>2,311</u>	<u>1,462</u>	<u>2,325</u>	<u>3,934</u>
Total Expenditures	<u>\$ 45,807</u>	<u>\$ 42,774</u>	<u>\$ 15,036</u>	<u>\$ 17,049</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 3,637</u>	<u>\$ 3,842</u>	<u>\$ (5,326)</u>	<u>\$ (6,643)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers from other funds	\$ 3,937	\$ 3,031	\$ 11,336	\$ 10,868
Operating transfers to other funds	<u>(1,337)</u>	<u>(2,715)</u>	<u>(266)</u>	<u>(297)</u>
Total Other Financing Sources (Uses)	<u>\$ 2,599</u>	<u>\$ 317</u>	<u>\$ 11,069</u>	<u>\$ 10,571</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 6,236	\$ 4,159	\$ 5,744	\$ 3,928
Fund Balances - Beginning of fiscal year	<u>13,872</u>	<u>9,713</u>	<u>40,763</u>	<u>36,835</u>
Fund Balances - End of fiscal year	<u>\$ 20,109</u>	<u>\$ 13,872</u>	<u>\$ 46,506</u>	<u>\$ 40,763</u>

This schedule continued on next page.

Marine Safety Fund		Game and Fish Protection Trust Fund		State Park Improvement Fund		Recreation Bond Fund - Local Projects	
1997	1996	1997	1996	1997	1996	1997	1996
\$ 200	\$ 297	\$	\$	\$	\$	\$	\$
4,614	4,952			25,175	26,511		2
<u>323</u>	<u>316</u>	<u>9,878</u>	<u>9,099</u>	<u>551</u>	<u>969</u>	<u>799</u>	<u>1,108</u>
<u>\$ 5,137</u>	<u>\$ 5,565</u>	<u>\$ 9,878</u>	<u>\$ 9,099</u>	<u>\$ 25,726</u>	<u>\$ 27,480</u>	<u>\$ 799</u>	<u>\$ 1,110</u>
\$ 4,376	\$ 4,339	\$	\$	\$ 24,131	\$ 23,547	\$ 4,102	\$ 6,857
				896	677		
<u>\$ 4,376</u>	<u>\$ 4,339</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 25,027</u>	<u>\$ 24,223</u>	<u>\$ 4,102</u>	<u>\$ 6,857</u>
<u>\$ 761</u>	<u>\$ 1,227</u>	<u>\$ 9,878</u>	<u>\$ 9,099</u>	<u>\$ 699</u>	<u>\$ 3,256</u>	<u>\$ (3,304)</u>	<u>\$ (5,746)</u>
\$ (966)	\$ (1,035)	\$ (3,695)	\$ (2,585)	\$ 11	\$	\$	\$
				(174)	(186)	(5)	(4)
<u>\$ (966)</u>	<u>\$ (1,035)</u>	<u>\$ (3,695)</u>	<u>\$ (2,585)</u>	<u>\$ (163)</u>	<u>\$ (186)</u>	<u>\$ (5)</u>	<u>\$ (4)</u>
\$ (206)	\$ 192	\$ 6,183	\$ 6,514	\$ 536	\$ 3,070	\$ (3,309)	\$ (5,750)
4,566	4,375	55,924	49,410	9,212	6,142	9,816	15,566
<u>\$ 4,361</u>	<u>\$ 4,566</u>	<u>\$ 62,107</u>	<u>\$ 55,924</u>	<u>\$ 9,748</u>	<u>\$ 9,212</u>	<u>\$ 6,507</u>	<u>\$ 9,816</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)
Continued

	<u>Michigan Natural Resources Trust Fund</u>		<u>Michigan State Parks Endowment Fund</u>	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
REVENUES				
Taxes	\$	\$	\$	\$
From federal agencies				
From licenses and permits				
From Michigan Natural Resources Trust Fund				10,000
Royalties, interest, and other miscellaneous	<u>51,217</u>	<u>35,623</u>	<u>4,664</u>	<u>3,017</u>
Total Revenues	<u>\$ 51,217</u>	<u>\$ 35,623</u>	<u>\$ 4,664</u>	<u>\$ 13,017</u>
EXPENDITURES				
Current	\$ 7,080	\$ 3,981	\$ 4,280	\$ 3,982
Capital outlay	<u>20,592</u>	<u>18,110</u>	<u>1,043</u>	<u>482</u>
Total Expenditures	<u>\$ 27,672</u>	<u>\$ 22,091</u>	<u>\$ 5,323</u>	<u>\$ 4,464</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 23,545</u>	<u>\$ 13,533</u>	<u>\$ (659)</u>	<u>\$ 8,553</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers from other funds	\$	\$	\$ 10,000	\$
Operating transfers to other funds	<u>(10,030)</u>	<u>(38)</u>	<u>(35)</u>	<u></u>
Total Other Financing Sources (Uses)	<u>\$ (10,030)</u>	<u>\$ (38)</u>	<u>\$ 9,965</u>	<u>\$ 0</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 13,515	\$ 13,495	\$ 9,306	\$ 8,553
Fund Balances - Beginning of fiscal year	<u>186,121</u>	<u>172,626</u>	<u>55,087</u>	<u>46,535</u>
Fund Balances - End of fiscal year	<u>\$ 199,636</u>	<u>\$ 186,121</u>	<u>\$ 64,393</u>	<u>\$ 55,087</u>

Michigan Nongame Fish and Wildlife Fund		Michigan Civilian Conservation Corps Endowment Fund		Forest Development Fund		Totals	
1997	1996	1997	1996	1997	1996	1997	1996
\$	\$	\$	\$	\$	\$	\$ 208	\$ 221
						2,611	3,141
				1	1	81,028	79,429
							10,000
<u>757</u>	<u>880</u>	<u>1,723</u>	<u>1,159</u>	<u>19,914</u>	<u>17,409</u>	<u>95,123</u>	<u>75,575</u>
<u>\$ 757</u>	<u>\$ 880</u>	<u>\$ 1,723</u>	<u>\$ 1,159</u>	<u>\$ 19,915</u>	<u>\$ 17,410</u>	<u>\$ 178,969</u>	<u>\$ 168,366</u>
\$ 551	\$ 586	\$ 968	\$ 518	\$ 17,654	\$ 15,905	\$ 119,349	\$ 114,140
				594	299	27,761	24,965
<u>\$ 551</u>	<u>\$ 586</u>	<u>\$ 968</u>	<u>\$ 518</u>	<u>\$ 18,248</u>	<u>\$ 16,204</u>	<u>\$ 147,110</u>	<u>\$ 139,105</u>
<u>\$ 206</u>	<u>\$ 294</u>	<u>\$ 755</u>	<u>\$ 641</u>	<u>\$ 1,667</u>	<u>\$ 1,206</u>	<u>\$ 31,859</u>	<u>\$ 29,261</u>
\$	\$	\$	\$	\$	\$	\$ 25,284	\$ 13,900
(4)	(8)	(6)		(122)	(101)	(16,641)	(6,969)
<u>\$ (4)</u>	<u>\$ (8)</u>	<u>\$ (6)</u>	<u>\$ 0</u>	<u>\$ (122)</u>	<u>\$ (101)</u>	<u>\$ 8,642</u>	<u>\$ 6,931</u>
\$ 203	\$ 286	\$ 749	\$ 641	\$ 1,545	\$ 1,106	\$ 40,502	\$ 36,192
<u>3,626</u>	<u>3,341</u>	<u>21,016</u>	<u>20,375</u>	<u>6,795</u>	<u>5,689</u>	<u>406,798</u>	<u>370,606</u>
<u>\$ 3,829</u>	<u>\$ 3,626</u>	<u>\$ 21,765</u>	<u>\$ 21,016</u>	<u>\$ 8,340</u>	<u>\$ 6,795</u>	<u>\$ 447,300</u>	<u>\$ 406,798</u>

DEPARTMENT OF NATURAL RESOURCES
Schedule of Federal Financial Assistance
Fiscal Years Ended September 30, 1997 and September 30, 1996

Grantor Agency/ Federal Assistance Program Title	Grant/ Contract Number	CFDA * Program Number	Award Period	Amount of Award
<u>U.S. Department of Agriculture</u>				
Agricultural Conservation Program	NA-96-0249	10.063	10/01/95 - 09/30/96	\$ 9,900
Forestry Incentives Program	NA-96-0248	10.064	10/01/95 - 09/30/96	\$ 3,700
Forestry Incentives Program	NA-97-0152	10.064	10/01/96 - 09/30/97	\$ 3,700
Total Forestry Incentive Program				
Conservation Reserve Program	NA-97-0159	10.069	10/01/91 - 09/30/92	\$ 30,290
Conservation Reserve Program	NA-97-0355	10.069	03/28/97 - 09/30/98	\$ 23,300
Total Conservation Reserve Program				
Forestry Research	23-977	10.652	10/01/93 - 09/30/98	\$ 10,000
Cooperative Forestry Assistance	NA-94-0359	10.664 **	10/01/93 - 09/30/98	\$ 13,500
Cooperative Forestry Assistance	NA-95-0059	10.664 **	10/01/94 - 09/30/96	\$ 979,600
Cooperative Forestry Assistance	NA-96-0155	10.664 **	10/01/95 - 09/30/96	\$ 8,000
Cooperative Forestry Assistance	NA-96-0154	10.664 **	10/01/95 - 09/30/96	\$ 36,900
Cooperative Forestry Assistance	NA-96-0058	10.664 **	10/01/95 - 09/30/96	\$ 10,000
Cooperative Forestry Assistance	NA-96-0049	10.664 **	10/01/95 - 09/30/96	\$ 56,266
Cooperative Forestry Assistance	NA-96-0057	10.664 **	10/01/95 - 09/30/96	\$ 5,000
Cooperative Forestry Assistance	NA-96-0060	10.664 **	10/01/95 - 09/30/96	\$ 10,000
Cooperative Forestry Assistance	NA-96-0070	10.664 **	10/01/95 - 09/30/98	\$ 1,360,541
Cooperative Forestry Assistance	NA-97-0158	10.664 **	10/01/96 - 09/30/97	\$ 10,000
Cooperative Forestry Assistance	NA-97-0156	10.664 **	10/01/96 - 09/30/97	\$ 36,158
Cooperative Forestry Assistance	NA-97-0157	10.664 **	10/01/96 - 09/30/97	\$ 5,000
Cooperative Forestry Assistance	NA-97-0153	10.664 **	10/01/96 - 09/30/98	\$ 1,273,367
Cooperative Forestry Assistance	NA-97-0155	10.664 **	10/01/96 - 09/30/98	\$ 10,000
Cooperative Forestry Assistance	NA-97-0154	10.664 **	10/01/96 - 09/30/98	\$ 17,600
Total Cooperative Forestry Assistance				
Schools and Roads - Grants to States	N/A	10.665 **	10/01/95 - 09/30/96	\$ 2,504,904
Schools and Roads - Grants to States	N/A	10.665 **	10/01/96 - 09/30/97	\$ 2,459,529
Total Schools and Roads - Grants to States				
Other Federal Financial Assistance:				
Wildfire Prevention Program	Cooperative Agreement	N/A	10/01/95 - 09/30/96	\$ 10,000
Wildfire Prevention Program	Cooperative Agreement	N/A	10/01/96 - 09/30/97	\$ 10,000
Farmland Protection Program	Cooperative Agreement	N/A	09/30/96 - 09/30/99	\$ 700,000
Interagency Fire Agreement - Ontario Fires	Cooperative Agreement	N/A		\$ 224,042
Interagency Fire Agreement - U.S. Fires	Cooperative Agreement	N/A		\$ 719,871

Total U.S. Department of Agriculture

This schedule continued on next page.

Amounts Transferred and Expended - Fiscal Year 1996-97				Amounts Transferred and Expended - Fiscal Year 1995-96			
Transferred to Other State Agencies	Directly Expended by Department	Distributed to Subrecipients	Total	Transferred to Other State Agencies	Directly Expended by Department	Distributed to Subrecipients	Total
\$	\$	\$	\$ 0	\$	\$ 9,900	\$	\$ 9,900
\$	\$ 3,700	\$	\$ 0	\$	\$ 3,700	\$	\$ 3,700
\$ 0	\$ 3,700	\$ 0	\$ 3,700	\$ 0	\$ 3,700	\$ 0	\$ 3,700
\$	\$ 19,146	\$	\$ 19,146	\$	\$	\$	\$ 0
\$ 0	\$ 19,146	\$ 0	\$ 19,146	\$ 0	\$ 0	\$ 0	\$ 0
\$	\$	\$	\$ 0	\$	\$	\$	\$ 0
\$	\$ 24,689	\$	\$ 0	\$ 69,200	\$ 2,454	\$	\$ 2,454
			24,689		4,406	210,733	284,339
			0		6,692		6,692
			0		27,319		27,319
			0				0
	30		30		3,418	33,393	36,811
			0		5,000		5,000
			0		5,666		5,666
45,000	21	61,904	106,925	36	845,076	95,940	941,052
	10,000		10,000				0
		30,130	30,130				0
	5,000		5,000				0
	781,628	138,487	920,115				0
	298		298				0
	9,685		9,685				0
\$ 45,000	\$ 831,351	\$ 230,521	\$ 1,106,872	\$ 69,236	\$ 900,031	\$ 340,066	\$ 1,309,333
\$	\$	\$	\$ 0	\$	\$	\$ 2,504,904	\$ 2,504,904
		2,459,529	2,459,529				0
\$ 0	\$ 0	\$ 2,459,529	\$ 2,459,529	\$ 0	\$ 0	\$ 2,504,904	\$ 2,504,904
\$	\$	\$	\$ 0	\$	\$ 8,853	\$	\$ 8,853
	10,000		10,000				0
			0				0
			0		224,042		224,042
			0		719,871		719,871
\$ 45,000	\$ 864,197	\$ 2,690,050	\$ 3,599,247	\$ 69,236	\$ 1,866,397	\$ 2,844,970	\$ 4,780,603

DEPARTMENT OF NATURAL RESOURCES
 Schedule of Federal Financial Assistance
 Fiscal Years Ended September 30, 1997 and September 30, 1996

Continued

Grantor Agency/ Federal Assistance Program Title	Grant/ Contract Number	CFDA * Program Number	Award Period	Amount of Award
<u>U.S. Department of Commerce</u>				
Anadromous Fish Conservation Act Program	NA46FA0514	11.405	10/01/95 - 09/30/96	\$ 20,000
Anadromous Fish Conservation Act Program	NA76FA0253	11.405	07/01/97 - 06/30/98	\$ 24,500
Total Anadromous Fish Conservation Act Program				
Interjurisdictional Fisheries Act of 1986	NA56FI0501	11.407	10/01/95 - 09/30/97	\$ 27,379
Total U.S. Department of Commerce				
<u>U.S. Department of Defense</u>				
Project ELF (Extremely Low Frequency)	Cooperative Agreement	N/A	10/01/95 - 09/30/96	\$ 28,465
Project ELF (Extremely Low Frequency)	Cooperative Agreement	N/A	10/01/96 - 09/30/97	\$ 5,000
Total Project ELF (Extremely Low Frequency)				
Total U.S. Department of Defense				
<u>U.S. Department of the Interior</u>				
Sport Fish Restoration Program	F35R-21	15.605 **	04/01/95 - 03/31/96	\$ 912,009
Sport Fish Restoration Program	F35R-22	15.605 **	04/01/96 - 03/31/97	\$ 1,052,865
Sport Fish Restoration Program	F35R-23	15.605 **	04/01/97 - 03/31/98	\$ 1,037,390
Sport Fish Restoration Program	F53R-12	15.605 **	04/01/95 - 03/31/96	\$ 2,217,472
Sport Fish Restoration Program	F53R-13	15.605 **	04/01/96 - 03/31/97	\$ 2,276,288
Sport Fish Restoration Program	F53R-14	15.605 **	04/01/97 - 03/31/98	\$ 2,513,602
Sport Fish Restoration Program	F58B-33	15.605 **	05/01/93 - 11/30/96	\$ 123,750
Sport Fish Restoration Program	F58B-37	15.605 **	06/01/95 - 09/30/98	\$ 75,722
Sport Fish Restoration Program	F58B-38	15.605 **	07/10/95 - 09/30/98	\$ 200,000
Sport Fish Restoration Program	F58B-39	15.605 **	02/28/97 - 09/30/99	\$ 243,000
Sport Fish Restoration Program	F62D-9	15.605 **	10/01/95 - 09/30/96	\$ 3,800,000
Sport Fish Restoration Program	F62D-10	15.605 **	10/01/96 - 09/30/97	\$ 4,173,000
Sport Fish Restoration Program	F72D-5	15.605 **	04/01/96 - 03/31/97	\$ 23,009
Sport Fish Restoration Program	F72D-6	15.605 **	04/03/97 - 04/02/98	\$ 37,534
Sport Fish Restoration Program	F75R-2	15.605 **	07/01/95 - 06/30/96	\$ 15,011
Sport Fish Restoration Program	F75R-3	15.605 **	07/01/96 - 06/30/97	\$ 15,011
Sport Fish Restoration Program	F75R-4	15.605 **	07/01/97 - 06/30/98	\$ 15,011
Sport Fish Restoration Program	F76B-1	15.605 **	07/28/94 - 07/25/97	\$ 1,300,000
Sport Fish Restoration Program	F78B-1	15.605 **	07/01/97 - 09/30/00	\$ 825,000
Sport Fish Restoration Program	FW4C-7	15.605 **	10/01/95 - 09/30/96	\$ 46,073
Sport Fish Restoration Program	FW4C-8	15.605 **	10/01/96 - 09/30/97	\$ 46,030
Total Sport Fish Restoration Program				

This schedule continued on next page.

Amounts Transferred and Expended - Fiscal Year 1996-97				Amounts Transferred and Expended - Fiscal Year 1995-96			
Transferred to Other State Agencies	Directly Expended by Department	Distributed to Subrecipients	Total	Transferred to Other State Agencies	Directly Expended by Department	Distributed to Subrecipients	Total
\$	\$	\$	\$ 0	\$	\$ 7,938	\$	\$ 7,938
			0				0
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 7,938</u>	<u>\$ 0</u>	<u>\$ 7,938</u>
\$	\$ 12,210	\$	\$ 12,210	\$	\$ 15,169	\$	\$ 15,169
<u>\$ 0</u>	<u>\$ 12,210</u>	<u>\$ 0</u>	<u>\$ 12,210</u>	<u>\$ 0</u>	<u>\$ 23,107</u>	<u>\$ 0</u>	<u>\$ 23,107</u>
\$	\$	\$	\$ 0	\$	\$ 2,259	\$	\$ 2,259
	324		324				0
<u>\$ 0</u>	<u>\$ 324</u>	<u>\$ 0</u>	<u>\$ 324</u>	<u>\$ 0</u>	<u>\$ 2,259</u>	<u>\$ 0</u>	<u>\$ 2,259</u>
<u>\$ 0</u>	<u>\$ 324</u>	<u>\$ 0</u>	<u>\$ 324</u>	<u>\$ 0</u>	<u>\$ 2,259</u>	<u>\$ 0</u>	<u>\$ 2,259</u>
\$	\$	\$	\$ 0	\$	\$ 230,600	\$	\$ 230,600
	182,719		182,719		363,139		363,139
	220,289		220,289				0
			0		720,271		720,271
	854,282		854,282		1,231,459		1,231,459
	1,093,066		1,093,066				0
			0		4,446		4,446
	19,153		19,153		12,354		12,354
	50,782		50,782		149,218		149,218
			0		11,419		11,419
			0		3,800,000		3,800,000
	3,773,723		3,773,723				0
			0		46,008		46,008
			0				0
			0		15,011		15,011
	15,003		15,003				0
			0				0
	33,999		33,999		176,332		176,332
			0				0
			0		44,299		44,299
	37,316		37,316				0
<u>\$ 0</u>	<u>\$ 6,280,332</u>	<u>\$ 0</u>	<u>\$ 6,280,332</u>	<u>\$ 0</u>	<u>\$ 6,804,556</u>	<u>\$ 0</u>	<u>\$ 6,804,556</u>

DEPARTMENT OF NATURAL RESOURCES
 Schedule of Federal Financial Assistance
 Fiscal Years Ended September 30, 1997 and September 30, 1996

Continued

Grantor Agency/ Federal Assistance Program Title	Grant/ Contract Number	CFDA * Program Number	Award Period	Amount of Award
Wildlife Restoration Program	FW4C-7	15.611 **	10/01/95 - 09/30/96	\$ 53,198
Wildlife Restoration Program	FW4C-8	15.611 **	10/01/96 - 09/30/97	\$ 46,030
Wildlife Restoration Program	H1-1	15.611 **	04/24/96 - 04/30/97	\$ 30,868
Wildlife Restoration Program	H1-1	15.611 **	08/01/95 - 07/31/96	\$ 90,000
Wildlife Restoration Program	W120S-27	15.611 **	10/01/95 - 09/30/96	\$ 771,042
Wildlife Restoration Program	W120S-28	15.611 **	10/01/96 - 09/30/97	\$ 902,214
Wildlife Restoration Program	W125D-15	15.611 **	01/01/96 - 12/31/96	\$ 393,750
Wildlife Restoration Program	W127R-14	15.611 **	10/01/95 - 09/30/96	\$ 2,287,644
Wildlife Restoration Program	W127R-15	15.611 **	10/01/96 - 09/30/97	\$ 1,960,984
Wildlife Restoration Program	W131S-3	15.611 **	10/01/96 - 12/31/98	\$ 1,349,445
Wildlife Restoration Program	W134L-1	15.611 **	02/22/94 - 09/30/98	\$ 2,001,401
Wildlife Restoration Program	W136S-1	15.611 **	07/15/94 - 09/30/96	\$ 375,263
Wildlife Restoration Program	W137S-1	15.611 **	09/15/95 - 12/31/96	\$ 284,200
Wildlife Restoration Program	W138D-1	15.611 **	10/01/95 - 09/30/96	\$ 218,387
Wildlife Restoration Program	W139D-1	15.611 **	10/01/95 - 09/30/96	\$ 6,950,070
Wildlife Restoration Program	W138D-2	15.611 **	10/01/96 - 09/30/97	\$ 244,637
Wildlife Restoration Program	W139D-2	15.611 **	10/01/96 - 09/30/97	\$ 6,200,079
Wildlife Restoration Program	W140D-1	15.611 **	05/01/97 -12/31/97	\$ 629,175
Wildlife Restoration Program	W140D-2	15.611 **	05/01/97 -12/31/97	\$ 211,222
Total Wildlife Restoration Program				
Endangered Species Conservation	Cooperative Agreement	15.612	10/06/94 - 09/30/98	\$ 150,000
Endangered Species Conservation	Cooperative Agreement	15.612	04/05/92 - 09/30/96	\$ 500
Endangered Species Conservation	E-1-25	15.612	07/01/94 - 09/29/96	\$ 259,364
Endangered Species Conservation	E-1-26	15.612	09/29/95 - 09/29/96	\$ 242,000
Endangered Species Conservation	E-1-27	15.612	09/30/96 - 09/29/97	\$ 229,655
Total Endangered Species Conservation				
Coastal Wetlands Planning, Protection and Restoration Act	CW1-1	15.614	10/12/92 - 03/31/97	\$ 62,250
Coastal Wetlands Planning, Protection and Restoration Act	CW1-2	15.614	10/01/93 - 03/31/97	\$ 62,250
Total Coastal Wetlands Planning, Protection and Restoration Act				
Clean Vessel Act Program	CV1-1	15.616	04/15/94 - 03/31/96	\$ 376,500
Clean Vessel Act Program	V1-2	15.616	01/01/95 - 09/30/96	\$ 163,100
Clean Vessel Act Program	V1-3	15.616	06/01/96 - 12/31/96	\$ 108,000
Total Clean Vessel Act Program				
Wildlife Conservation and Appreciation	P1W-1	15.617	01/01/95 - 09/30/96	\$ 8,000
Wildlife Conservation and Appreciation	P2W-1	15.617	06/01/95 - 03/31/96	\$ 6,500
Total Wildlife Conservation and Appreciation				

This schedule continued on next page.

Amounts Transferred and Expended - Fiscal Year 1996-97				Amounts Transferred and Expended - Fiscal Year 1995-96			
Transferred to Other State Agencies	Directly Expended by Department	Distributed to Subrecipients	Total	Transferred to Other State Agencies	Directly Expended by Department	Distributed to Subrecipients	Total
\$	\$	\$	\$ 0	\$	\$ 47,513	\$	\$ 47,513
	36,554		36,554				0
	30,868		30,868				0
			0		90,000		90,000
			0		700,857		700,857
	881,836		881,836				0
	29,323		29,323		300,768		300,768
			0		2,183,552		2,183,552
	1,899,008		1,899,008				0
			0				0
	119,660		119,660		421,013		421,013
	92,775		92,775		253,551		253,551
	235,715		235,715		52,284		52,284
			0		62,567		62,567
			0		5,693,243		5,693,243
	44,044		44,044				0
	5,831,109		5,831,109				0
	358,777		358,777				0
	50,613		50,613				0
<u>\$ 0</u>	<u>\$ 9,610,282</u>	<u>\$ 0</u>	<u>\$ 9,610,282</u>	<u>\$ 0</u>	<u>\$ 9,805,348</u>	<u>\$ 0</u>	<u>\$ 9,805,348</u>
\$	\$ 57,177	\$	\$ 57,177	\$	\$	\$	\$ 0
			0				0
			0		16,394		16,394
			0		242,000		242,000
	215,876		215,876				0
<u>\$ 0</u>	<u>\$ 273,053</u>	<u>\$ 0</u>	<u>\$ 273,053</u>	<u>\$ 0</u>	<u>\$ 258,394</u>	<u>\$ 0</u>	<u>\$ 258,394</u>
\$	\$	\$	\$ 0	\$	\$ 37,126	\$	\$ 37,126
			0				0
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 37,126</u>	<u>\$ 0</u>	<u>\$ 37,126</u>
\$	\$	\$	\$ 0	\$	\$ 71,099	\$	\$ 71,099
			0		90,705		90,705
	29,603		29,603				0
<u>\$ 0</u>	<u>\$ 29,603</u>	<u>\$ 0</u>	<u>\$ 29,603</u>	<u>\$ 0</u>	<u>\$ 161,804</u>	<u>\$ 0</u>	<u>\$ 161,804</u>
\$	\$	\$	\$ 0	\$	\$ 8,000	\$	\$ 8,000
			0		6,500		6,500
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 14,500</u>	<u>\$ 0</u>	<u>\$ 14,500</u>

DEPARTMENT OF NATURAL RESOURCES
 Schedule of Federal Financial Assistance
Fiscal Years Ended September 30, 1997 and September 30, 1996

Continued

	Grant/ Contract Number	CFDA * Program Number	Award Period	Amount of Award
Outdoor Recreation - Acquisition, Development, and Planning	N/A	15.916 **	10/01/95 - 09/30/96	\$ 4,002,055
Outdoor Recreation - Acquisition, Development, and Planning	N/A	15.916	10/01/96 - 09/30/97	\$ 4,208,719
Total Outdoor Recreation - Acquisition, Development, and Planning				
Other Federal Financial Assistance:				
Wetland Restoration on Private Lands	Cooperative Agreement	15.FFC	01/08/95 -12/31/97	\$ 40,000
Peterson Acquisition Project	Cooperative Agreement	15.FFC	10/25/94 - 06/30/96	\$ 50,000
Multistate Aquatic Resource Information System	Cooperative Agreement	15.KKK	11/01/95 -12/31/96	\$ 10,000
Harvest Surveys	Cooperative Agreement	N/A	04/24/96 - 04/30/97	\$ 23,280
Cormorant Study	Cooperative Agreement	N/A	05/12/95 -12/31/96	\$ 4,500
St. Joseph River Cooperative Project	Cooperative Agreement	N/A	09/16/93 -12/31/95	\$ 50,000
Total U.S. Department of the Interior				
<u>U.S. Department of Transportation</u>				
Boating Safety Financial Assistance	16.01.26	20.005 **	10/01/95 - 09/30/96	\$ 1,282,579
Boating Safety Financial Assistance	17.01.26	20.005 **	10/01/96 - 09/30/97	\$ 1,842,197
Total Boating Safety Financial Assistance				
Other Federal Financial Assistance:				
National Recreational Trails	NRT-1	N/A	09/22/93 - 09/30/96	\$ 398,564
National Recreational Trails	NRT-001(96)	N/A	08/05/96 - 09/30/98	\$ 389,681
National Recreational Trails	NRT-001(97)	N/A	02/04/97 - 09/30/99	\$ 389,866
Total National Recreational Trails				
Total U.S. Department of Transportation				
<u>Small Business Administration</u>				
Procurement Assistance to Small Businesses	SB-PA-93T-022	59.009	09/01/93 - 06/30/95	\$ 1,089,394
Procurement Assistance to Small Businesses	SB-PA-94T-022	59.009	09/01/94 -12/31/95	\$ 647,748
Total Procurement Assistance to Small Businesses				
Total Small Business Administration				
<u>U.S. Environmental Protection Agency</u>				
Surveys, Studies, Investigations and Special Purpose Grants	X985499-01	66.606	09/03/97 -11/30/98	\$ 30,000
Total U.S. Environmental Protection Agency				

This schedule continued on next page.

Amounts Transferred and Expended - Fiscal Year 1996-97				Amounts Transferred and Expended - Fiscal Year 1995-96			
Transferred to Other State Agencies	Directly Expended by Department	Distributed to Subrecipients	Total	Transferred to Other State Agencies	Directly Expended by Department	Distributed to Subrecipients	Total
\$	\$	\$	\$ 0	\$	\$ 24,656	\$ 868,342	\$ 892,998
	15,129	542,274	557,403				
<u>\$ 0</u>	<u>\$ 15,129</u>	<u>\$ 542,274</u>	<u>\$ 557,403</u>	<u>\$ 0</u>	<u>\$ 24,656</u>	<u>\$ 868,342</u>	<u>\$ 892,998</u>
\$	\$	\$	\$ 0	\$	\$	\$	\$ 0
	50,000		50,000				0
	9,650		9,650				0
			0		23,280		23,280
			0		4,500		4,500
			0		4,924		4,924
<u>\$ 0</u>	<u>\$ 16,268,049</u>	<u>\$ 542,274</u>	<u>\$ 16,810,323</u>	<u>\$ 0</u>	<u>\$ 17,139,088</u>	<u>\$ 868,342</u>	<u>\$ 18,007,430</u>
\$	\$	\$	\$ 0	\$	\$ 1,269,437	\$	\$ 1,269,437
	1,822,077		1,822,077				0
<u>\$ 0</u>	<u>\$ 1,822,077</u>	<u>\$ 0</u>	<u>\$ 1,822,077</u>	<u>\$ 0</u>	<u>\$ 1,269,437</u>	<u>\$ 0</u>	<u>\$ 1,269,437</u>
\$	\$	\$	\$ 0	\$	\$ 45,526	\$	\$ 45,526
	217,065		217,065				0
	17,165		17,165				0
<u>\$ 0</u>	<u>\$ 234,230</u>	<u>\$ 0</u>	<u>\$ 234,230</u>	<u>\$ 0</u>	<u>\$ 45,526</u>	<u>\$ 0</u>	<u>\$ 45,526</u>
<u>\$ 0</u>	<u>\$ 2,056,307</u>	<u>\$ 0</u>	<u>\$ 2,056,307</u>	<u>\$ 0</u>	<u>\$ 1,314,963</u>	<u>\$ 0</u>	<u>\$ 1,314,963</u>
\$	\$	\$ 86,201	\$ 86,201	\$	\$	\$ 38,073	\$ 38,073
		7,791	7,791			281,771	281,771
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 93,992</u>	<u>\$ 93,992</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 319,844</u>	<u>\$ 319,844</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 93,992</u>	<u>\$ 93,992</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 319,844</u>	<u>\$ 319,844</u>
\$	\$	\$	\$ 0	\$	\$	\$	\$ 0
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

DEPARTMENT OF NATURAL RESOURCES
 Schedule of Federal Financial Assistance
 Fiscal Years Ended September 30, 1997 and September 30, 1996

Continued

	Grant/ Contract Number	CFDA * Program Number	Award Period	Amount of Award
Great Lakes Fishery Commission				
Lamprey Barrier Program - Paw Paw River	92-2	N/A	06/01/92 - 06/01/96	\$ 20,000
Lamprey Barrier Program - Misery River	94-4	N/A	03/01/94 - 09/30/95	\$ 11,250
Lamprey Barrier Program - Pere Marquette	95-2	N/A	07/01/92 -10/31/96	\$ 239,200
Lamprey Barrier Program - Albany Creek	95-3	N/A	05/01/95 -10/30/95	\$ 7,000

Total Great Lakes Fishery Commission

Total Federal Financial Assistance

* CFDA is defined as *Catalog of Federal Domestic Assistance*.

** Major program, as defined by the Single Audit Act.

N/A = Not available.

Amounts Transferred and Expended - Fiscal Year 1996-97				Amounts Transferred and Expended - Fiscal Year 1995-96			
Transferred to Other State Agencies	Directly Expended by Department	Distributed to Subrecipients	Total	Transferred to Other State Agencies	Directly Expended by Department	Distributed to Subrecipients	Total
\$	\$	\$	\$ 0	\$	\$ 1,662	\$	\$ 1,662
			0				0
			0		25,357		25,357
			0		4,134		4,134
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 31,153	\$ 0	\$ 31,153
<u>\$ 45,000</u>	<u>\$ 19,201,087</u>	<u>\$ 3,326,316</u>	<u>\$ 22,572,403</u>	<u>\$ 69,236</u>	<u>\$ 20,376,967</u>	<u>\$ 4,033,156</u>	<u>\$ 24,479,359</u>

SUPPLEMENTAL INFORMATION

DEPARTMENT OF NATURAL RESOURCES
Schedule of Questioned Costs
Fiscal Years Ended September 30, 1997 and 1996

<u>Program and Grant/Contract Number</u>	<u>Finding</u>	<u>Questioned Costs *</u>
<u>U.S. Department of Agriculture</u>		
1. Cooperative Forestry Assistance CFDA #10.664 NA-95-0059	DNR did not have supporting documentation for expenditures billed. (Finding 1.f.)	\$ 345,919
2. Cooperative Forestry Assistance CFDA #10.664 NA-96-0057	DNR billed for ineligible expenditures for supplies.	132
3. Cooperative Forestry Assistance CFDA #10.664 NA-96-0070	DNR did not have supporting documentation for expenditures billed. (Finding 1.f.)	115,725
4. Cooperative Forestry Assistance CFDA #10.664 NA-96-0155	DNR billed for ineligible expenditures for travel.	1,724
5. Cooperative Forestry Assistance CFDA #10.664 NA-94-0359	DNR incurred expenditures that were ineligible to be paid for with federal funds.	2,761
6. Cooperative Forestry Assistance CFDA #10.664 NA-95-0059	DNR billed for expenditures that occurred outside of the award period. (Finding 1.c.)	24,689
7. Cooperative Forestry Assistance CFDA #10.664 NA-95-0059	DNR billed for ineligible expenditures for office supplies.	30
8. Cooperative Forestry Assistance CFDA #10.664 Various Grants	DNR charged terminal leave payments directly to federal programs without proper approval from the cognizant agency. (Finding 1.e.)	8,289
9. Cooperative Forestry Assistance CFDA #10.664 Various Grants	DNR incorrectly computed the indirect cost rate for fiscal year 1995-96. DNR should have used the fiscal year 1993-94 Statewide Cost Allocation Plan (SWCAP) to determine the total indirect costs for fiscal year 1995-96; however, it used the fiscal year 1994-95 SWCAP. As a result of this error, the total amount of allowable State central services was overstated. The overstatement was carried forward to the calculation of total indirect costs, which was used in the computation of the indirect cost rate.	4,905
<u>U.S. Department of the Interior</u>		
10. Sport Fish Restoration Grants CFDA #15.605 Grant No. F35R-21	DNR billed an expenditure twice. (Finding 1.f.)	12,308

This schedule continued on next page.

DEPARTMENT OF NATURAL RESOURCES
Schedule of Questioned Costs
Fiscal Years Ended September 30, 1997 and 1996
Continued

Program and Grant/Contract Number	Finding	Questioned Costs *
11. Sport Fish Restoration Grants CFDA #15.605 Grant No. F58B-38	DNR billed an expenditure twice. (Finding 1.f.)	\$ 4,581
12. Sport Fish Restoration Grants CFDA #15.605 Grant No. F62D-9	DNR did not have supporting documentation for expenditures billed. (Finding 1.f.)	6,290
13. Sport Fish Restoration Grants CFDA #15.605 Various Grants	DNR charged terminal leave payments directly to federal programs without proper approval from the cognizant agency. (Finding 1.e.)	88,280
14. Wildlife Restoration Program CFDA # 15.611 Grant No. W136S-1	DNR did not have supporting documentation for expenditures billed. (Finding 1.f.)	23,842
15. Wildlife Restoration Program CFDA # 15.611 Grant No. W136S-1	DNR billed for expenditures that were incurred outside of the award period. (Finding 1.c.)	92,775
16. Wildlife Restoration Program CFDA #15.611 Grant No. W137S-1	DNR did not have supporting documentation for expenditures billed. (Finding 1.f.)	97,776
17. Wildlife Restoration Program CFDA #15.611 Grant No. W137S-1	DNR billed for expenditures that were incurred outside of the award period. (Finding 1.c.)	18,726
18. Wildlife Restoration Program CFDA #15.611 Grant No. W137S-1	DNR had supporting documentation for more expenditures than were billed.	(86,562)
19. Wildlife Restoration Program CFDA #15.611 Grant No. W125D-15	DNR incurred federal expenditures outside of the award period. (Finding 1.c.)	25,845
20. Wildlife Restoration Program CFDA #15.611 Grant No. W125D-15	DNR lacked support to determine if expenditures occurred during the award period. (Finding 1.f.)	3,563
21. Wildlife Restoration Program CFDA #15.611 Grant No. W125D-15	DNR did not have supporting documentation for expenditures incurred. (Finding 1.f.)	3,276
22. Wildlife Restoration Program CFDA #15.611 Grant No. W127R-14	DNR billed more hours than were reported on an employee's time sheet.	77

This schedule continued on next page.

DEPARTMENT OF NATURAL RESOURCES
Schedule of Questioned Costs
Fiscal Years Ended September 30, 1997 and 1996
Continued

Program and Grant/Contract Number	Finding	Questioned Costs *
23. Wildlife Restoration Program CFDA #15.611 Grant No. W127R-14	DNR billed for expenditures that were incurred outside of the award period. (Finding 1.c.)	\$ 97,491
24. Wildlife Restoration Program CFDA #15.611 Grant No. W127R-14	DNR did not have supporting documentation for expenditures billed. (Finding 1.f.)	45,000
25. Wildlife Restoration Program CFDA #15.611 Grant No. W134L-1	DNR did not have supporting documentation for expenditures billed. (Finding 1.f.)	28
26. Wildlife Restoration Program CFDA #15.611 Various Grants	DNR charged terminal leave payments directly to federal programs without proper approval from the cognizant agency. (Finding 1.e.)	91,160
27. Outdoor Recreation - Acquisition, Development, and Planning CFDA #15.916	DNR used an incorrect audit rate for federal billing, resulting in an underbilling.	(276)
28. Outdoor Recreation - Acquisition, Development, and Planning CFDA #15.916	DNR used an incorrect indirect cost rate for federal billing, resulting in an underbilling.	(13,287)
<u>U.S. Department of Transportation</u>		
29. Boating Safety Financial Assistance CFDA #20.005	DNR incorrectly computed the indirect cost rate for fiscal year 1995-96. DNR should have used the fiscal year 1993-94 SWCAP to determine the total indirect costs for fiscal year 1995-96; however, it used the fiscal year 1994-95 SWCAP. As a result of this error, the total amount of allowable State central services was overstated. The overstatement was carried forward to the calculation of total indirect costs, which was used in the computation of the indirect cost rate.	6,244
Questioned Costs		<u>\$ 1,121,437</u>
Negative Questioned Costs		<u>\$ 100,125</u>

CFDA is defined as *Catalog of Federal Domestic Assistance*.

* Questioned Costs are defined as amounts potentially due to the federal government because of reimbursements for unallowable, undocumented, unapproved, or unreasonable costs, or amounts potentially due from the federal government for reimbursements that were not claimed or were claimed for less than the eligible amount. Amounts potentially due from the federal government are presented as (negative) questioned costs.

DEPARTMENT OF NATURAL RESOURCES
Schedule of Immaterial Noncompliance
Fiscal Years Ended September 30, 1997 and 1996

<u>Program and Grant/Contract Number</u>	<u>Finding/Noncompliance</u>
<u>U.S. Department of the Interior</u>	
1. Wildlife Restoration Program CFDA #15.611 Grant No. W120S-28	DNR did not obtain federal grantor agency approval for budget line-item transfers (expenditures) in excess of 10% of the approved line-item budget as required by the Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (Common Rule).
2. Wildlife Restoration Program and Sport Fish Restoration Program CFDA #15.611 CFDA #15.605	DNR did not certify and report the correct number of paid hunting and fishing license holders in the State to the U.S. Fish and Wildlife Service. Duplicate license holders were not removed from the count when customer data was missing. The number of certified license holders is used by the Fish and Wildlife Service to calculate the State's share of the apportionment.

NOTE: This schedule reports instances of immaterial noncompliance with laws and regulations which have no associated questioned costs and are not included in the body of our report. Material instances of noncompliance with laws and regulations are reported in our comments and findings. All instances of noncompliance that have an associated questioned cost are presented on the schedule of questioned costs.

Glossary of Acronyms and Terms

CFDA	<i>Catalog of Federal Domestic Assistance.</i>
DCDS	Data Collection and Distribution System.
DEQ	Department of Environmental Quality.
DMB	Department of Management and Budget.
DNR	Department of Natural Resources.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial statements and schedules of an audited entity are fairly presented in conformity with generally accepted accounting principles.
internal control structure	The management control environment, accounting system, and control policies and procedures established by management to provide reasonable assurance that resources are safeguarded; that resources are used in compliance with laws and regulations; and that financial transactions are properly accounted for and reported.
material weakness	A serious reportable condition in which the design or operation of one or more of the internal control structure elements (including management controls) does not reduce to a relatively low level the risk that errors or irregularities, in amounts that would be material in relation to the financial statements and schedules, would not be prevented or detected.
OMB	federal Office of Management and Budget.
questioned costs	Costs tentatively identified as unallowable, undocumented, unapproved, or unreasonable. These costs are subject to disallowance by the federal government.
reportable condition	A matter coming to the auditor's attention that, in his/her judgment, should be communicated because it represents

either an opportunity for improvement or a significant deficiency in the design or operation of the internal control structure.

SOMCAFR

State of Michigan Comprehensive Annual Financial Report.

SWCAP

Statewide Cost Allocation Plan.

**terminal leave
payments**

Accrued sick and annual leave payoffs for employees leaving State service.