

EXECUTIVE DIGEST

DEPARTMENT OF NATURAL RESOURCES

INTRODUCTION

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

AUDIT PURPOSE

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

BACKGROUND

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

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

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

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

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

AUDIT OBJECTIVES,
CONCLUSIONS, AND
NOTEWORTHY
ACCOMPLISHMENTS

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

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

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

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

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

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

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

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

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

AUDIT SCOPE

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

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

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

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

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