



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN

DEPARTMENT OF NATURAL RESOURCES

LANSING



REBECCA A. HUMPHRIES
DIRECTOR

May 14, 2009

Mr. Doug Ringler, Director
Office of Internal Audit Services
Office of the State Budget
George W. Romney Building
111 South Capitol, 6th Floor
Lansing, Michigan 48913

Dear Mr. Ringler:

In accordance with the State of Michigan, Financial Management Guide, Part VII, attached is a summary table identifying our responses and corrective action plans to address recommendations contained within the Office of the Auditor General's audit report of the Financial Audit including the provisions of the Single Audit Act of the Department of Natural Resources for the period of October 1, 2005 through September 30, 2007.

If you have any questions regarding the summary table or corrective action plans, please do not hesitate to contact me.

Sincerely,

Signature Redacted

Joseph D. Frick, Chief
Financial Services
517-373-1750

Attachments

cc: Ms. Donna Stine, Executive Office
Mr. Thomas McTavish, Office of the Auditor General
Senator Michelle McManus
Representative Michael Lahti
Ms. Jessica Runnels, Senate Fiscal Agency
Dr. Kirk Lundquist, House Fiscal Agency
Mr. Thomas Benson, SBO, OIAS
Director Rebecca A. Humphries, Director, DNR
Mr. Rodney Stokes, Chief of Staff, DNR
Ms. Sharon Schafer, DNR
Ms. Lynne Boyd, DNR
Mr. Gary Hagler, DNR
Mr. Russ Mason, DNR
Mr. Kelly Smith, DNR
Mr. James Wood, DNR

NATURAL RESOURCES COMMISSION
Keith J. Charters, Chair • Mary Brown • Hurley J. Coleman, Jr. • John Madigan • Timothy L. Nichols • J. R. Richardson • Frank Wheatlake

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Department of Natural Resources
Summary of Agency Responses to Recommendations
OAG Single Audit for the period October 1, 2005 through September 30, 2007

Audit Recommendations the DNR has complied with

7510801 – Internal Control Over Accounts Payable
Recommendations A and B

7510802 – Cooperative Forestry Assistance
Recommendations B and C

7510804 – Fish and Wildlife Cluster
Recommendation B

7510805 – State Wildlife Grants
Recommendations A, B, C, and D

7510806 – Outdoor Recreation – Acquisition, Development and Planning
Recommendation B

7510807 – Boating Safety Financial Assistance
Recommendations A, B, C, D, E, and F

Audit Recommendations the DNR agrees with and will comply

7510802 – Cooperative Forestry Assistance
Recommendations A and D

7510803 – Schools and Roads – Grants to States
Recommendations A, B, and C

7510804 – Fish and Wildlife Cluster
Recommendation A

7510806 – Outdoor Recreation – Acquisition, Development and Planning
Recommendations A, C, and D

7510807 – Boating Safety Financial Assistance
Recommendation G

Audit Recommendations the DNR disagrees with

Although the DNR did not agree with all of the recommendations in the audit report, there are no recommendations where the DNR has not complied or does not intend to comply.

Department of Natural Resources
Final Plan to Address Audit Recommendations
OAG Single Audit for the period October 1, 2005 through September 30, 2007

Internal Control Over Accounts Payable 7510801

Recommendation A states that *DNR should improve its internal control over recording General Fund accounts payable to ensure that accounts payable and expenditures are recorded at the proper amount.* Recommendation B states that *DNR should improve its internal control over recording accounts payable for MNRTF expenditures to ensure that expenditures are recorded in the proper fiscal year.*

The DNR has complied with both of these recommendations. On September 16th, 23rd, and 24th of 2008, we held year-end closing training sessions using GoTo Meeting that were attended by finance staff from every division, including staff from several field locations. The training included a discussion on the proper recording of accounts payable and the difference between an accounts payable and an encumbrance. We also went over exhibits A and B from chapter 14, Section 100 of the Financial Management Guide, the decision tree for recording accounts payable and determining proper fiscal year. During the fiscal year 2008 year-end closing process we also instituted an additional level of review by the Chief of Financial Services for any accounts payable transactions in excess of \$500,000. These transactions were reviewed and signed off on prior to being released in the accounting system.

Cooperative Forestry Assistance 7510802

Recommendation A states that *DNR should strengthen its internal control over the Cooperative Forestry Assistance Program to ensure compliance with federal laws and regulations regarding allowable costs/cost principles.*

The DNR agrees with this finding and is in the process of complying. Part one of this finding relates to the DNR not ensuring that the documentation supported the payment amount. We have complied with this portion of the finding. Since the audit, the program manager has reviewed the documentation requirements with supervisors and staff to ensure they understand the requirements and the proper documentation is maintained.

Part two of this finding relates to the DNR not ensuring that time and activity records were certified by the employee. We intend to propose electronic communication alternatives to the Forest Service for situations where direct entry of time by employees is not feasible. When we have resolved this issue with the Forest Service, we intend to implement new procedures. We plan to have the new procedures implemented by September 30, 2009.

Recommendation B states that *DNR should strengthen its internal control over the Cooperative Forestry Assistance Program to ensure compliance with federal laws and regulations regarding procurement and suspension and debarment.*

The DNR has complied with this recommendation. New notepad requirements went into effect November 15, 2008 for all new contracts or purchase orders that are funded with any federal assistance funds. Procurement Services are ensuring that no purchases of goods or services within the Department's delegated authority are made to parties on the federal List of Parties Excluded from Federal Procurement or Non-procurement Programs. All requisitions must identify the percent of state and federal funding in the notepad. Financial Services staff verifies the recommended bidder's status prior to award, and a database is maintained for audit purposes.

Recommendation C states that *DNR should strengthen its internal control over the Cooperative Forestry Assistance Program to ensure compliance with federal laws and regulations regarding reporting.*

The DNR has complied with this recommendation. Beginning with the reports that were due in December of 2008, we required the program staff responsible for preparing the performance reports to maintain all backup documentation to support the information contained in the reports. This information is reviewed and maintained for audit purposes.

Recommendation D states that *DNR should strengthen its internal control over the Cooperative Forestry Assistance Program to ensure compliance with federal laws and regulations regarding subrecipient monitoring.*

The DNR agrees with this finding and is in the process of complying. Part one of this finding relates to the DNR not sufficiently monitoring subrecipient activities related to incomplete inventories for the locations of planted trees. We have complied with this portion of the finding. Since the audit, the program manager has reviewed the documentation requirements with supervisors and staff, and the invoices are now matched with the actual inventory received before payments are approved.

Part two of this finding relates to the DNR not ensuring that we identified all of our subrecipients, that they obtained Single Audits, and that we reviewed all subrecipient Single Audits and issued management decisions when applicable. Since the Single Audit, we have developed a new Business Objects query to pull information from MIDB to identify subrecipients and determine the amount of federal assistance they received from the DNR. In addition, we do internet searches to try to determine any subrecipients who have expended \$500,000 or more in federal awards during their fiscal year. If we identify subrecipients that expended \$500,000 and we do not already have an audit report, we request the report. We have also developed a new internal use form for use in reviewing the audit reports, which is significantly more efficient. Our old form was seven pages long. Our new one, which meets A-133 requirements, is two pages. Upon reviewing the reports, if we identify any report that does not include the amounts expended from our programs, the DNR creates an additional supplement to the SEFA page with the omitted DNR Federal Aid amounts and provides it to the local unit to correct the omission. The DNR plans to have these improvements fully implemented by September 30, 2009. While this process is improved over our previous process and demonstrates due diligence, it is still possible that a subrecipient could reach the \$500,000 expenditure threshold by expending federal dollars from an entity other than

the DNR that we might not become aware of. Therefore, would not know that we needed to review an audit report for that subrecipient.

Schools and Roads – Grants to States 7510803

Recommendations A, B, and C state that *DNR should improve its internal control over the Schools and Roads – Grants to States Program to ensure compliance with federal laws and regulations regarding subrecipient monitoring.*

The DNR agrees with this finding and is in the process of complying.

Recommendation A is referring to a lack of follow-up for a subrecipient that distributed the funds incorrectly, and for a missing report. Since the audit, we have sent follow-up letters to obtain all missing reports from subrecipients. We are also in the process of sending follow-up letters to any subrecipient who incorrectly distributed the funds and expect to have this completed by July 1, 2009.

Recommendation B is referring to the DNR not identifying which subrecipients expended \$500,000 or more in federal awards during the fiscal year, and Recommendation C is referring to the DNR not reviewing subrecipient Single Audit reports and issuing management decisions within six months of receipt of the audit report. Please see response under Cooperative Forestry Assistance, Recommendation D, Part two.

Fish and Wildlife Cluster 7510804

Recommendation A states that *DNR should strengthen its internal control over the Fish and Wildlife Cluster to ensure compliance with federal laws and regulations regarding allowable costs/cost principles.*

The DNR agrees with this finding and is in the process of complying. Since the audit, the supervisors and employees have been notified that when an employee is unable to enter their own time into DCDS, that a hard copy of the timesheet signed by the employee needs to be maintained for audit purposes. We are still in the process of updating our procedures and sharing this information with all new employees via our new employee orientation and expect to have this completed by September 30, 2009.

Recommendation B states that *DNR should improve its internal control over the Fish and Wildlife Cluster to ensure compliance with federal laws and regulations regarding procurement and suspension and debarment.*

The DNR has complied with this recommendation. Please see response under Cooperative Forestry Assistance, Recommendation B.

State Wildlife Grants 7510805

Recommendation A states that *DNR should strengthen its internal control over the State Wildlife Grants Program to ensure compliance with federal laws and regulations regarding activities allowed or unallowed.*

The DNR has complied with this recommendation. We have made sure that all final reports from universities are received and reviewed before the final payment is made since the audit was completed.

Recommendation B states that *DNR should strengthen its internal control over the State Wildlife Grants Program to ensure compliance with federal laws and regulations regarding allowable costs/cost principles.*

The DNR has complied with this recommendation. We have completed the required form to semi-annually certify the employee working solely on the State Wildlife Grant since the audit was completed. We will continue checking semi-annually to see if any other employees are working solely on the State Wildlife Grant and need to have a certification form completed.

Recommendation C states that *DNR should strengthen its internal control over the State Wildlife Grants Program to ensure compliance with federal laws and regulations regarding matching, level of effort, and earmarking.*

The DNR has complied with this recommendation. We obtained a schedule from the university detailing the waived indirect costs for each project for the audit period. Since the audit, we have specified the amounts and percentages of indirect costs to be waived by the universities in the work plan which will also be included in the purchase order.

Recommendation D states that *DNR should strengthen its internal control over the State Wildlife Grants Program to ensure compliance with federal laws and regulations regarding procurement and suspension and debarment.*

The DNR has complied with this recommendation. Please see response under Cooperative Forestry Assistance, Recommendation B.

Outdoor Recreation – Acquisition, Development and Planning 7510806

Recommendation A states that *DNR should strengthen its internal control over the Outdoor Recreation – Acquisition, Development and Planning Program to ensure compliance with federal laws and regulations regarding allowable costs/cost principles.*

The DNR agrees with this finding and is in the process of complying. Part one of this finding relates to the DNR not ensuring that time and activity records were certified by the employee. Please see response under Fish and Wildlife Cluster, Recommendation A.

Part two of this finding relates to the DNR not properly calculating the indirect cost rate allocation for the program based on the federal approved methodology. We have complied with this portion of the finding. The error in one of the formulas used to compute the indirect cost rate was corrected during the audit

Recommendation B states that *DNR should strengthen its internal control over the Outdoor Recreation – Acquisition, Development and Planning Program to ensure compliance with federal laws and regulations regarding cash management.*

The DNR has complied with this recommendation. The error in one of the formulas used to compute the indirect cost rate was corrected during the audit.

Recommendation C states that *DNR should improve its internal control over the Outdoor Recreation – Acquisition, Development and Planning Program to ensure compliance with federal laws and regulations regarding subrecipient monitoring.*

The DNR agrees with this finding and is in the process of complying. Part one of this finding is referring to the DNR not always ensuring that we informed subrecipients of the CFDA title and number for federal funds passed through to the subrecipients. We have complied with this part of the recommendation. One project agreement was prepared on an old form that did not have the CFDA information on it. We have since checked all grant agreements before issuance to make sure the correct version of the form is used.

Part two of this finding relates to the DNR not ensuring that we identified all of our subrecipients, that they obtained Single Audits, and that we reviewed all subrecipient Single Audits and issued management decisions when applicable. Please see response under Cooperative Forestry Assistance, Recommendation D, Part two.

Recommendation D states that *DNR should improve its internal control over the Outdoor Recreation – Acquisition, Development and Planning Program to ensure compliance with federal laws and regulations regarding reporting.*

The DNR agrees with this finding and is in the process of complying. We saved copies of the October 2008 reports from the National Park Service to show what projects were outstanding and what ones were completed. In October of 2007, we had 834 overdue post-completion inspection reports. In October of 2008, we had reduced the number of overdue post-completion inspection reports to 574. We anticipate being able to eliminate the backlog of reports by September 30, 2010.

Boating Safety Financial Assistance 7510807

Recommendation A states that *DNR should improve its internal control over the Boating Safety Financial Assistance Program to ensure compliance with federal laws and regulations regarding activities allowed or unallowed.*

The DNR has complied with this recommendation. The activities and expenditures for a project that was not included in the grant documentation was an isolated error and we have submitted a complete list of eligible projects with the grant application information since the audit.

Recommendation B states that *DNR should improve its internal control over the Boating Safety Financial Assistance Program to ensure compliance with federal laws and regulations regarding allowable costs/cost principles.*

The DNR has complied with this recommendation. Part one of this finding relates to the DNR improperly charging a grant for costs not incurred during the grant period.

Since the audit we have implemented a new requirement for this program that any expenditure of encumbrances, work projects, or capital outlay that were carried forward from a prior year may not be applied to a prior year grant and will not be drawn down until expended, at which time they will be applied to the current year grant.

Part two of this finding relates to the DNR not obtaining prior approval of the awarding agency for one of the public access site projects. Please see response under Recommendation A of this finding.

Part three of this finding relates to the DNR improperly charging 100% of payroll expenditures for two employees where 10% of their time was not spent on allowable program activities. During the audit we adjusted the default coding in the payroll system for one of personnel who was charged 100% to the program to accurately reflect the level of effort on the program. The second employee has been instructed to record his time according to the program and corresponding funding source.

Recommendations C and D state that *DNR should improve its internal control over the Boating Safety Financial Assistance Program to ensure compliance with federal laws and regulations regarding cash management and period of availability.*

The DNR has complied with these recommendations. Please see response under Recommendation B of this finding.

Recommendation E states that *DNR should improve its internal control over the Boating Safety Financial Assistance Program to ensure compliance with federal laws and regulations regarding procurement and suspension and debarment.*

The DNR has complied with this recommendation. Please see response under Cooperative Forestry Assistance, Recommendation B.

Recommendation F states that *DNR should improve its internal control over the Boating Safety Financial Assistance Program to ensure compliance with federal laws and regulations regarding reporting.*

The DNR has complied with this recommendation. Please see response under Recommendation B of this finding.

Recommendation G states that *DNR should improve its internal control over the Boating Safety Financial Assistance Program to ensure compliance with federal laws and regulations regarding subrecipient monitoring.*

The DNR agrees with this finding and is in the process of complying. Please see response under Cooperative Forestry Assistance, Recommendation D, Part two.