



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF NATURAL RESOURCES & ENVIRONMENT
LANSING



January 18, 2011

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, 2007 through September 30, 2009.

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, Assistant Chief
Administration Division
517-373-1750

Attachment

cc: Mr. Bill Rustem, Executive Office
Mr. Thomas McTavish, Office of the Auditor General
Senator Darwin L. Booher
Representative Matt Huuki
Mr. Josh Sefton, Senate Fiscal Agency
Ms. Viola Wild, House Fiscal Agency
Mr. Dan Wyant, Director, DNRE
Mr. Rodney Stokes, Chief of Staff, DNRE
Mr. James Kasprzak, DNRE
Ms. Sharon Schafer, DNRE
Ms. Lynne Boyd, DNRE
Mr. Ron Olson, DNRE
Mr. Mark Hoffman, DNRE
Mr. Steve DeBrabander, DNRE

Department of Natural Resources
Preliminary Plan to Address Audit Recommendations
OAG Single Audit for the period October 1, 2007 through September 30, 2009

Service Organization Controls 7511001

Recommendation A states that *DNR should obtain sufficient assurances regarding the internal control of the service organization that operates the Central Reservation System.*

The DNR agrees with this finding and is in the process of complying. We had a phone conversation with the service organization in July of 2010 and strongly encouraged them to complete a SAS 70 audit by October of 2010. The issue was brought up in several weekly status meetings after that time, and on October 19, 2010, the vendor indicated to us that they are in the process of hiring an auditor to do the SAS 70 audit. On October 26, 2010 the vendor indicated the SAS 70 audit would be a type 2 audit. We do not have an estimated completion date from the service organization at this time.

Cash Management 7511002

Recommendation A states that DNR should improve its internal control over requests of federal reimbursement to help ensure timely requests of federal funds.

The DNR has complied with this recommendation. Effective September 1, 2010, we are requesting federal reimbursement on a monthly basis whenever possible.

Internal Control Over Accounts Payable and Encumbrances 7511003

Recommendation A states that *DNR should improve its internal control over recording accounts payable for the special revenue and permanent funds to ensure that accounts payable are properly recorded.* Recommendation B states that *DNR should improve its internal control over recording encumbrances.*

The DNR has complied with both of these recommendations. On September 14th, 16th, 22nd, and 23rd of 2010, 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 encumbrances. The handouts included 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. In July of 2010 we sent letters to each community that has an active grant-in-aid project and asked them to estimate their expenditures as of September 30, 2010. Follow-up letters were then sent to any communities that did not respond. These letters are being used to help establish accounts payables for these projects. We have also instituted an additional review of accounts payables and encumbrances for the fiscal year 2010 year-end closing by having our grants auditor sample these transactions and verify they are properly recorded. In addition, we are continuing to have the Chief Accountant review any accounts payables established in excess of \$500,000 prior to being released in the accounting system.

Cooperative Forestry Assistance 7511004

Recommendations A, C, D, and E state that *DNR should strengthen its internal control over the Cooperative Forestry Assistance Program to ensure compliance with federal laws and regulations regarding activities allowed or unallowed, eligibility, matching, level of effort, earmarking, and procurement, suspension and debarment.*

Recommendations B and F state 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 and reporting.*

The DNR has complied with all of these recommendations. Staff reminders were sent to all Forest Management Division employees on July 20th reminding them to follow DNR policies 15.01-02, 21.15-02, and 21.15-04. Policy 15.01-02 requires a hard copy of the timesheet be signed by the employee and maintained for audit purposes in cases where an employee does not submit their own time in DCDS and the costs are charged to federal grants. Policies 21.15-02 and 21.15-04 refer to time and attendance for employees without DCDS access and a time and attendance overview. This reminder also addressed the importance of maintaining appropriate procurement documentation and required employees to retain a copy or scan all documentation before sending originals to the central office. Another reminder was sent to applicable program staff on October 20th regarding performance reports and maintaining all grant documentation in the corresponding files. This note also required copies of backup documentation for any amounts reported in the performance reports be forwarded to Lansing so they can be kept centrally in the Forest Management Lansing Office.

Fish and Wildlife Cluster 7511005

Recommendation A states that *DNR should establish internal control to ensure compliance with federal laws and regulations regarding semiannual certification of employees who worked on only one federal award for the Fish and Wildlife cluster.*

The DNR has complied with this recommendation. The missing certification was from fiscal year 2008. From fiscal year 2009 and forward the required certifications were completed and maintained.

Outdoor Recreation – Acquisition, Development and Planning 7511006

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 reporting.*

The DNR agrees with this finding and is in the process of complying. The Department is moving to a self-certification process to address the backlog of overdue post-completion inspection reports. The grantees will complete a self-certification form and submit it to the Department. We will then perform site-visits of approximately ten percent of the self-certified grant projects. The post-completion inspections will be tracked on a spreadsheet that shows all of the projects that need to be inspected, and the date of the last inspection. This will allow us to track the status of inspections. Due to

the magnitude of the inspection backlog and the staff shortages we are experiencing, we anticipate having this completed by December 31, 2011.

Boating Safety Financial Assistance 7511007

Recommendations A and B state that *DNR should strengthen its internal control over the Boating Safety Financial Assistance Program to ensure compliance with federal laws and regulations regarding allowable costs/cost principles and procurement, suspension and debarment.* Recommendation C states that *DNR should strengthen its internal control over reporting.*

The DNR agrees with this finding and is in the process of complying. Staff reminders were sent to all Recreation Division employees in the form of a newsletter on July 6, 2010. The newsletter reminded employees of DCDS coding requirements as well as the requirement for employees to submit their own time in DCDS or maintain a hard copy signed by the employee and supervisor. These reminders will be sent again periodically during the year.

Grant agreements with municipalities from fiscal year 2010 will be revised and all future agreements will include language that informs contractors that they need to comply with federal procurement requirements and that by signing contracts, they are certifying that they have not been suspended or debarred and that they are required to pass the requirement to subcontractors. We anticipate having this completed by January 31st, 2011.

Recommendation C has four parts. Part one states that the Department reported expenditures for ineligible annual groundwater permit fees and fuel purchased for resale. We have complied with this part by ensuring these expenditures are no longer reported. Part two refers to timesheets not being signed by employees or approved by supervisors, and payroll costs that were not certified for employees that only worked on one federal award. The timesheet issue is addressed above with the staff reminders. We have complied with the certification requirement by obtaining the proper certifications for these employees and maintaining this documentation in the grant files. Part three states that the Department recorded an accounts payable based on the balance of a Waterways grant agreement rather than actual obligations. We have complied with this part by sending letters on July 8th, 2010 to the Waterways grantees, requesting them to provide expenditure information as of September 30th. These letters were used to establish accounts payables for actual work completed. Part four refers to the grant agreements with municipalities which is addressed above.

Department of Natural Resources
Summary of Agency Responses to Recommendations
OAG Single Audit for the period October 1, 2007 through September 30, 2009

Audit Recommendations the DNR has complied with

7511002 – Cash Management
Recommendation A

7511003 – Internal Control Over Accounts Payable and Encumbrances
Recommendations A and B

7511004 – Cooperative Forestry Assistance
Recommendations A, B, C, D, E, and F

7511005 – Fish and Wildlife Cluster
Recommendation A

Audit Recommendations the DNR agrees with and will comply

7511001 – Service Organization Controls
Recommendation A

7511006 – Outdoor Recreation – Acquisition, Development and Planning
Recommendation A

7511007 – Boating Safety Financial Assistance
Recommendations A, B and C

Audit Recommendations the DNR disagrees with

There are no recommendations where the DNR has not complied or does not intend to comply.