



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF NATURAL RESOURCES
LANSING



KEITH CREAGH
DIRECTOR

April 3, 2013

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

Dear Director 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 Department of Natural Resources (DNR).

Questions regarding the summary table or corrective action plans should be directed to Ms. Sharon M. Schafer, Finance and Operations Chief, at 517-241-5482.

Sincerely,

Signature Redacted

Keith Creagh
Director
517-373-2329

Attachment

cc: Senate Appropriations Subcommittee Members
House Appropriations Subcommittee Members
Mr. Thomas McTavish, Office of the Auditor General
Mr. Josh Sefton, Senate Fiscal Agency
Ms. Viola Wild, House Fiscal Agency
Mr. John Nixon, State Budget Director, Department of Management
Technology, and Budget (DTMB)
Mr. Jacques McNeely, DTMB
Ms. Jennifer Harrison, DTMB
Dr. William E. Moritz, Natural Resources Deputy, DNR
Mr. Trevor VanDyke, Legislative Liaison and Policy Advisor, DNR
Ms. Sharon M. Schafer, DNR
Mr. Erik Eklund, DNR

**Financial Audit including the Provisions of the Single Audit Act
Department of Natural Resources**

**Summary of Agency Responses Audit 751-0100-12
Covered Period – October 1, 2009 through September 30, 2011**

Summary Table

	Audit Recommendations the Agency Complied With	Audit Recommendations the Agency Agrees with and Will Comply	Audit Recommendations the Agency Disagrees With
Recommendation 1 – We again recommend that DNR obtain sufficient assurances regarding the internal control of the service organization that operates the Central Reservation System.	X		
Recommendation 2 – We recommend that DNR improve its internal control over financial reporting to ensure that its SEFA is prepared in accordance with OMB Circular A-133 and State financial management policies.		X	
Recommendation 3 – We recommend that DNR improve its internal control over the Cooperative Forestry Assistance Program to ensure its compliance with federal laws and regulations regarding eligibility. We also recommend that DNR establish internal control to ensure compliance with Cooperative Forestry Assistance Program federal laws and regulations	X X		

<p>regarding procurement and suspension and debarment.</p> <p>We again recommend that DNR improve the internal control over the Cooperative Forestry Assistance Program to ensure its compliance with federal laws and regulations regarding reporting.</p>	<p>X</p>		
<p>Recommendation 4 – We recommend that DNR improve its internal control over the ARRA – Recovery Act of 2009: Wildland Fire Management Program to ensure its compliance with federal laws and regulations regarding procurement and suspension and debarment and reporting</p>	<p>X</p>		
<p>Recommendation 5 – We recommend that DNR improve its internal control over the Coastal Wetlands Planning, Protection and Restoration Act Program to ensure its compliance with federal laws and regulations regarding subrecipient monitoring.</p>	<p>X</p>		
<p>Recommendation 6 – We recommend that DNR improve its internal control over the Outdoor Recreation-Acquisition, Development and Planning Program to ensure compliance with federal laws and regulations regarding reporting.</p>		<p>X</p>	
<p>Recommendation 7 – We recommend DNR establish internal control to comply with Recreational Trails Program federal laws and</p>	<p>X</p>		

regulations regarding procurement and suspension and debarment.			
Recommendation 8 – We recommend DNR improve its internal control over the Boating Safety Financial Assistance Program to ensure compliance with federal laws and regulations regarding allowable costs/cost principles and reporting.	X		

**Financial Audit including the Provisions of the Single Audit Act
Department of Natural Resources**

**Plan to address the recommendations for Audit 751-0100-12
Covered Period – October 1, 2009 through September 30, 2011**

Recommendation 1: We again recommend that DNR obtain sufficient assurances regarding the internal control of the service organization that operates the Central Reservation System.

Corrective Action: DNR has been requesting updates from the third party provider as they are securing an independent audit. In a meeting held on June 13, 2012 with the third party provider, the DNR was informed that the third party provider had retained an independent auditor to perform an SSAE-16. The latest e-mailed update received from the third party provider indicated the following:

- 1) The SSAE-16 audit had been completed and there are currently 5 items requiring clarification/additional supporting documentation before the draft report can be issued.
- 2) The outstanding clarifications/supporting documentation should be wrapped up by the third party provider by close of business on August 10, 2012. We expect to receive the report by September 10, 2012.
- 3) The SSAE-16 was received and transmitted to the Office of Internal Audit Services as part of the TPSO annual review on September 18, 2012.

DNR and DTMB have rebid this work and have selected a new third party service provider. The new draft contract contains language requiring the third party service provider must provide the State with annual SSAE -16 audits, audit assistance with BICE, PCI audit assistance and compliance, and adherence to GAAP.

Recommendation 2: We recommend that DNR improve its internal control over financial reporting to ensure that its SEFA is prepared in accordance with OMB Circular A-133 and State financial management policies.

Corrective Action: No actions have been taken since the release of the audit report. Actions that will be taken are to bring division financial staff who receive federal funds together to discuss an effective approach to utilize the state accounting system to accurately represent the SEFA. The distinction between vendor and subrecipient has to be clearly communicated and documented in the state accounting system which may include the establishment of an agency object number specifically for subrecipient payments. After this is accomplished, training will be provided for resource division staff involved in the payment process. Anticipated completion is February 1, 2013

Recommendation 3: We recommend that DNR improve its internal control over the Cooperative Forestry Assistance Program to ensure its compliance with federal laws and regulations regarding eligibility.

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

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

Corrective Action: Program staff has been directed to be diligent in reviewing forms to ensure subgrantee eligibility. Staff has reviewed documentation in the current grant cycle to ensure the eligibility of the subgrantees

The Arbor Day mini grant program that Forest Resources administered in the past is no longer being utilized. If DNR administers this grant again in the future, the procurement, suspension and debarment language will be included.

DNR will adjust account coding beginning with October 1, 2012 to align with the grant reporting categories. This will provide for more accurate expenditure reporting for each grant category. Account coding has been implemented and is being used beginning October 1, 2012.

Recommendation 4: We recommend that DNR improve its internal control over the ARRA – Recovery Act of 2009: Wildland Fire Management Program to ensure its compliance with federal laws and regulations regarding procurement and suspension and debarment and reporting.

Corrective Action: By August 1, 2012, steps will be taken to ensure future landowner grants that exceed the financial threshold value will receive State Administrative Board approval.

DNR will update the agreement language for the Cooperative Forestry Assistance grants to include a certification by landowner signature that they have not been suspended or debarred from working with the federal government. Furthermore, DNR staff will check the suspension and debarment listing to verify landowner eligibility before awarding a landowner grant. This will occur by August 1, 2012. This corrective action has been fully implemented with the revision of the grant agreement language.

Recommendation 5: We recommend that DNR improve its internal control over the Coastal Wetlands Planning, Protection and Restoration Act Program to ensure its compliance with federal laws and regulations regarding subrecipient monitoring.

Corrective Action: Proper procedures were implemented subsequent to the instance cited in the audit, and adequate procedures are currently in place. The Department now has a standard subrecipient agreement form that is used for all coastal grant subrecipients to ensure compliance with federal laws and regulations. The agreement specifies subrecipient reporting requirements, scope of work, requirements of the grant agreement, and relevant state and federal regulations. The subrecipient monitoring procedures currently in place will be continued for any future coastal grants awarded to the Department.

Recommendation 6: We recommend that DNR improve its internal control over the Outdoor Recreation-Acquisition, Development and Planning Program to ensure compliance with federal laws and regulations regarding reporting.

Corrective Action: The DNR will work closely with National Parks Service (NPS) to verify which projects are outstanding. The DNR has developed a process to complete the backlog of delinquent post-completion inspections through a self-certification process. We will be initiating a pilot project during the summer of 2012 and will then move forward with projects in all 83 counties in Michigan. The DNR will also continue to complete inspections of projects with our staff to ensure compliance with NPS requirements. Consistent progress will be made annually until backlog has been eliminated. The targeted date for completion is September 2017.

Recommendation 7: We recommend DNR establish internal control to comply with Recreational Trails Program federal laws and regulations regarding procurement and suspension and debarment.

Corrective Action: The Forest Resources Division has included suspension and debarment controls within the grant writing process. The corrective action has been completed.

Recommendation 8: We recommend DNR improve its internal control over the Boating Safety Financial Assistance Program to ensure compliance with federal laws and regulations regarding allowable costs/cost principles and reporting.

Corrective Action: Parks and Recreation (PRD) has implemented a file management procedure. There is now a check out system in place using a sign out log identifying who has the file and/or document and the date it was provided. When the file and/or document are returned, it will be checked back in on the sign out log. PRD is also filing the documents in the project file within 3 days of processing in MAIN. The file cabinets have been moved from a centralized filing area to a private file area with a specific employee limiting the access to the files and allowing for the new sign out system.

As of April 5, 2012 DNR is retaining printed, hard-copy data inquiry reports to support future performance reporting.