

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, 1991 through September 30, 1993.

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 Office of Management and Budget Circular A-128, *Audits of State and Local Governments*.

BACKGROUND

DNR's mission is to conserve and develop the State's natural resources and to protect and enhance the State's environmental quality. Also, DNR manages State recreational lands, parks, boating facilities, and populations of fish and wildlife.

DNR, established by Act 17, P.A. 1921 (Sections 299.1 - 299.6 of the *Michigan Compiled Laws*), 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 for six-year terms. The commission appoints the director who carries out DNR policy and program development.

DNR is internally divided into three major program areas: resource management; environmental protection; and policy, budget, and administration. DNR's financial and administrative operations are concentrated under the policy, budget, and administration program area. All of DNR's major program areas participate in federal grants management. 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, enterprise funds, an internal service fund, and an agency fund. As of September 30, 1993, DNR had approximately 2,940 full-time employees, and DNR's General Fund expenditures for fiscal year 1992-93 were approximately \$267.1 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.

Conclusion: Our assessment of DNR's internal control structure disclosed the following material weaknesses:

- DNR did not ensure that expenditures and the related accounts payable were recorded in the proper fiscal year (Finding 1).

DNR agreed with our finding and informed us that it is seeking funding to establish a centralized postaudit of financial transactions.

- DNR did not accurately estimate accounts receivable (Finding 2).

DNR agreed with our finding.

Our assessment also disclosed reportable conditions involving capital outlay expenditures (Finding 3), expenditure adjustments (Finding 4), cash advances (Finding 5), separation of duties (Finding 6), contractual personal services (Finding 7), cash receipts (Finding 8), and unaudited grants (Finding 9).

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. However, we found that DNR assigned responsibilities to its internal auditor that were not statutorily required audit functions (Finding 10).

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

Conclusion: Our assessment of compliance with laws and regulations did not disclose instances of noncompliance that could have a material effect on DNR's financial statements and schedules. However, our assessment disclosed instances of noncompliance related to subrecipient audits (Finding 11), expenditures in excess of budget line items (Finding 12), and lapsed funds (Finding 13).

Audit Objective: To audit DNR's financial statements and schedules for the fiscal years ended September 30, 1993 and September 30, 1992.

Conclusion: We expressed a qualified opinion on DNR's financial statements and schedules. The results of our audit of the financial statements and schedules are further discussed in our independent auditor's reports on the financial statements and on the financial schedules. DNR did not properly record some transactions for fiscal years 1992-93 and 1991-92, which had the following effects on the financial statements and schedules:

- a. DNR overstated \$6.2 million of expenditures and understated \$2.4 million of accounts payable in the special revenue fund financial statements for fiscal year 1991-92 (Finding 1).

- b. DNR overstated \$2.1 million and \$1.5 million of accounts receivable and revenue in its General Fund financial schedules in fiscal years 1992-93 and 1991-92, respectively (Finding 2).

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Department of Natural Resources for the period October 1, 1991 through September 30, 1993. 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 Michigan State Fair Revolving Fund or the DNR Magazine Fund, which we audit separately, or 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 audit includes 13 findings and 16 corresponding recommendations. DNR agreed with 15 of the recommendations and disagreed with 1 of the recommendations. DNR informed us that it has

implemented or is in the process of implementing most of the recommendations.

DNR had complied with 13 of the 18 prior audit recommendations included in our scope of audit. Five of the 18 prior audit recommendations are repeated in this report.