

## EXECUTIVE DIGEST

### DEPARTMENT OF NATURAL RESOURCES

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#### **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, 1993 through September 30, 1995.

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#### **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*.

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#### **BACKGROUND**

During our audit period, DNR's mission\* was to conserve and develop the State's natural resources and to protect and enhance the State's environmental quality. Also, DNR managed State recreational lands, parks, boating facilities, and populations of fish and wildlife.

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 - 324.9010 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 for four-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 managing federal grants. 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, 1995, DNR had approximately 2,956 full-time employees, and DNR's General Fund expenditures and operating transfers out for fiscal year 1994-95 were approximately \$399.5 million.

On August 1, 1995, the Governor issued Executive Order 1995-18 which divided DNR into two departments, DNR and the Department of Environmental Quality (DEQ). Executive Order 1995-18 took effect on October 1, 1995. Under this Executive Order, DNR is responsible for resource management and DEQ is responsible for

environmental protection. Critical administrative functions, such as internal audit, human resources, and budget, were split between DEQ and DNR, and noncritical administrative functions, such as accounting, remained with DNR.

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**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 functional responsibility codes\*, assigned to users for performing Relational Standard

Accounting and Reporting System\* (R\*STARS) transactions, were appropriate to maintain sound internal controls (Finding 1).

DNR agreed with the recommendation and informed us that it has taken corrective action to ensure the appropriate assignment of functional responsibility codes. Of the 21 instances noted in the audit, 12 were temporary assignments necessitated by system startup processes. Those conflicts have been eliminated.

- DNR did not reconcile funds deposited with the State Treasurer with license sales recorded in the automated license sales control system (Finding 2).

DNR agreed with the recommendation and has complied. New DNR administration informed us that it has now reconciled the past and put in place a process and staff that will allow them to appropriately handle this matter in the future. New DNR management has added two accountants this year, with plans for two additional accountants, to ensure that the funds deposited with the State Treasurer reconcile with license sales recorded on the Retail Sales System.

Our assessment also disclosed reportable conditions\* involving expenditures processed by direct vouchers\* (Finding 3), timely deposit of cash receipts (Finding 4), recording and reconciliation of appropriations (Finding 5), accounts receivable records (Finding 6), separation of duties in payroll functions (Finding 7), Personnel-Payroll Information System for Michigan daily transaction log (Finding 8), Michigan State Waterways Fund payroll cost distribution (Finding 9), and separation of duties in the Waste Management Division (Finding 10).

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 a reportable condition related to the role of its internal auditor (Finding 11).

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

**Conclusion:** Our assessment of compliance with laws and regulations did not disclose any instances of noncompliance that could have a material effect on DNR's financial statements, its financial schedules, or any of its major federal financial assistance programs. However, our assessment disclosed reportable conditions relating to compliance with appropriations acts (Finding 12), controls over encumbrance procedures (Finding 13), federal indirect cost rate (Finding 14), and monitoring of federal grant subrecipients (Finding 15).

**Audit Objective:** To audit DNR's financial statements and schedules for the fiscal years ended September 30, 1995 and September 30, 1994.

**Conclusion:** We expressed an unqualified opinion on DNR's financial statements and schedules. Our audit of DNR's financial statements and schedules disclosed reportable conditions relating to operating transfers (Finding 16) and revenue misclassifications (Finding 17).

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.

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**AUDIT SCOPE**

Our audit scope was to examine the financial and other records of the Department of Natural Resources for the period October 1, 1993 through September 30, 1995. 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 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*.

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

Our audit report contains 17 findings and 18 corresponding recommendations. The agency's preliminary response indicated that DNR and DEQ have complied or will comply with 16 of the recommendations. DNR disagreed with 2 recommendations.

DNR had complied with 13 of the 16 prior audit recommendations included in our scope of audit. Three of the 16 prior audit recommendations are repeated in this report.