

FINANCIAL AUDIT
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT
OF THE

DEPARTMENT OF NATURAL RESOURCES

October 1, 2001 through September 30, 2003

“...The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.”

– Article IV, Section 53 of the Michigan Constitution

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Michigan
Office of the Auditor General
REPORT SUMMARY

Financial Audit

*Including the Provisions of the Single Audit Act
 October 1, 2001 through September 30, 2003*

Department of Natural Resources (DNR)

**Report Number:
 75-100-04**

**Released:
 June 2004**

A Single Audit is designed to meet the needs of all financial report users, including an entity's federal grantor agencies. The audit determines if the financial schedules and/or financial statements are fairly presented; considers internal control over financial reporting and internal control over federal program compliance; determines compliance with State compliance requirements material to the financial schedules and/or financial statements; and assesses compliance with direct and material requirements of the major federal programs.

Financial Statements and Financial Schedules:

Auditor's Reports Issued

We issued unqualified opinions on DNR's financial statements and financial schedules.

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Internal Control Over Financial Reporting

We did not identify any material weaknesses in internal control over financial reporting. However, we did identify reportable conditions (Findings 1 and 2).

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Noncompliance Material to the Financial Statements and Financial Schedules

We did not identify any instances of noncompliance applicable to the financial statements and financial schedules that are required to be reported under *Government Auditing Standards*.

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Federal Awards:

Auditor's Reports Issued on Compliance

We audited 3 programs as major programs and issued 3 unqualified opinions. The federal programs audited as major programs are identified on the back of this summary.

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Internal Control Over Major Programs

We did not report any findings related to internal control over major programs.

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Required Reporting of Noncompliance

We did not identify any instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.

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Systems of Accounting and Internal Control:

We determined that DNR was in substantial compliance with Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws*.

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We audited the following programs as major programs:

<u>CFDA Number</u>	<u>Program Title</u>	<u>Compliance Opinion</u>
15.605	Sport Fish Restoration	Unqualified
15.611	Wildlife Restoration	Unqualified
20.219	Recreational Trails Program	Unqualified

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



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201 N. Washington Square
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Thomas H. McTavish, C.P.A.
Auditor General

Scott M. Strong, C.P.A., C.I.A.
Deputy Auditor General



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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

June 30, 2004

Mr. Keith J. Charters, Chairperson
Natural Resources Commission
and
Ms. Rebecca A. Humphries, Director
Department of Natural Resources
Stevens T. Mason Building
Lansing, Michigan

Dear Mr. Charters and Ms. Humphries:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Natural Resources (DNR) for the period October 1, 2001 through September 30, 2003.

This report contains our report summary; our independent auditor's reports on the financial statements and on the financial schedules; and the DNR financial statements and financial schedules, notes to the financial statements and financial schedules, and supplemental financial statements and financial schedules. This report also contains our independent auditor's reports on compliance and on internal control over financial reporting and on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133 and our schedule of findings and questioned costs. In addition, this report contains DNR's summary schedule of prior audit findings, its corrective action plan, and a glossary of acronyms and terms.

Our findings and recommendations are contained in Section II of the schedule of findings and questioned costs. The agency preliminary responses are contained in the corrective action plan. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

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TABLE OF CONTENTS

DEPARTMENT OF NATURAL RESOURCES

	<u>Page</u>
INTRODUCTION	
Report Summary	1
Report Letter	3
INDEPENDENT AUDITOR'S REPORTS, FINANCIAL STATEMENTS, AND FINANCIAL SCHEDULES	
Independent Auditor's Report on the Financial Statements	10
Independent Auditor's Report on the Financial Schedules	12
Department of Natural Resources Financial Statements and Schedules	
Combined Balance Sheet	14
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances	15
Schedule of General Fund Revenues and Transfers	16
Schedule of Sources and Disposition of General Fund Authorizations	17
Notes to the Financial Statements and Financial Schedules	18
SUPPLEMENTAL FINANCIAL STATEMENTS AND FINANCIAL SCHEDULES	
Special Revenue Funds	
Descriptions of Special Revenue Funds	25
Combining Balance Sheet	28
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	30

Permanent Funds	
Descriptions of Permanent Funds	32
Combining Balance Sheet	34
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	35
Description of Capital Projects Fund	36
Schedule of Certain General Fund Assets and Liabilities	37
Schedule of Expenditures of Federal Awards	38

INDEPENDENT AUDITOR'S REPORTS ON
COMPLIANCE AND INTERNAL CONTROL

Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting	44
Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	46

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results	49
Section II: Findings Related to the Financial Statements and Financial Schedules	50
1. Revenue for State Parks, Harbor Sites, and Boating Access Sites	50
2. Retail Sales System Controls	51
Section III: Findings and Questioned Costs Related to Federal Awards	52

OTHER SCHEDULES

Summary Schedule of Prior Audit Findings	54
Corrective Action Plan	56

GLOSSARY

Glossary of Acronyms and Terms

59

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INDEPENDENT AUDITOR'S REPORTS,
FINANCIAL STATEMENTS, AND FINANCIAL
SCHEDULES



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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on the Financial Statements

March 5, 2004

Mr. Keith J. Charters, Chairperson
Natural Resources Commission
and
Mr. K.L. Cool, Director
Department of Natural Resources
Stevens T. Mason Building
Lansing, Michigan

Dear Mr. Charters and Mr. Cool:

We have audited the financial statements of the Department of Natural Resources as of and for the fiscal years ended September 30, 2003 and September 30, 2002, as identified in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, these financial statements present only specific funds administered by the Department of Natural Resources and do not purport to, and do not, present fairly the financial position of the State of Michigan or its special revenue, permanent, and capital projects funds as of September 30, 2003 and September 30, 2002 and the changes in financial position for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Department of Natural Resources' funds as of September 30, 2003 and September 30, 2002 and the changes in financial position for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 5, 2004 on our tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the supplemental financial statements, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the Department's financial statements referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

AUDITOR GENERAL



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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on the Financial Schedules

March 5, 2004

Mr. Keith J. Charters, Chairperson
Natural Resources Commission
and
Mr. K.L. Cool, Director
Department of Natural Resources
Stevens T. Mason Building
Lansing, Michigan

Dear Mr. Charters and Mr. Cool:

We have audited the financial schedules of the Department of Natural Resources for the fiscal years ended September 30, 2003 and September 30, 2002, as identified in the table of contents. These financial schedules are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the financial schedules include only the revenues and transfers and the sources and disposition of authorizations for the Department of Natural Resources' General Fund accounts, presented using the current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either the Department or the State's General Fund in

conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenues and transfers and the sources and disposition of authorizations of the Department of Natural Resources for the fiscal years ended September 30, 2003 and September 30, 2002, on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 5, 2004 on our tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the other supplemental financial schedule, the schedule of certain General Fund assets and liabilities, are presented for purposes of additional analysis and are not a required part of the Department's financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

AUDITOR GENERAL

DEPARTMENT OF NATURAL RESOURCES
 Combined Balance Sheet
 As of September 30
 (in thousands)

	Governmental Fund Types					
	Special Revenue Funds		Permanent Funds		Capital Projects Fund	
	2003	2002	2003	2002	2003	2002
ASSETS						
Cash	\$ 77	\$ 88	\$	\$	\$	\$
Equity in common cash (Note 2)	146,268	144,916	182,075	120,342	13,723	11,151
Taxes, interest, and penalties receivable	276	280				
Securities lending collateral (Note 8)	11,190	4,843	40,739	22,057		
Amounts due from federal agencies	4,308	1,606				
Inventories	114	47				
Investments - Long-term (Note 2)	71,523	87,791	249,811	283,059		
Other current assets	6,809	6,935	10,809	10,701		
Other noncurrent assets	34	197				
Total Assets	\$ 240,598	\$ 246,704	\$ 483,434	\$ 436,159	\$ 13,723	\$ 11,151
LIABILITIES AND FUND BALANCES						
Liabilities:						
Warrants outstanding	\$ 1,710	\$ 2,257	\$ 1,345	\$ 1,279	\$ 4	\$ 9
Accounts payable and other liabilities	18,417	25,652	2,617	8,126	361	2,780
Obligations under securities lending	11,190	4,843	40,739	22,057		
Amounts due to other funds (Note 5)	557	373	22	12		
Deferred revenue	720	723				
Deferred revenue - Long-term	34	197				
Total Liabilities	\$ 32,627	\$ 34,046	\$ 44,723	\$ 31,474	\$ 365	\$ 2,789
Fund Balances (Note 1.a.):						
Reserves for:						
Budgetary carry-forwards:						
Encumbrances	\$ 26,948	\$ 15,055	\$ 15,689	\$ 18,207	\$	\$
Restricted revenues (Note 3)	12,633	18,819				
Multi-year projects	32,679	36,318	28,245	17,134		
Funds held as permanent investments	97,294	96,857	360,048	329,609		
Total Reserved	\$ 169,555	\$ 167,048	\$ 403,982	\$ 364,949	\$ 0	\$ 0
Unreserved	38,417	45,609	34,730	39,736	13,358	8,362
Total Fund Balances	\$ 207,972	\$ 212,658	\$ 438,711	\$ 404,686	\$ 13,358	\$ 8,362
Total Liabilities and Fund Balances	\$ 240,598	\$ 246,704	\$ 483,434	\$ 436,159	\$ 13,723	\$ 11,151

The accompanying notes are an integral part of the financial statements.

DEPARTMENT OF NATURAL RESOURCES
 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Fiscal Years Ended September 30
 (in thousands)

	Governmental Fund Types					
	Special Revenue Funds		Permanent Funds		Capital Projects Fund	
	2003	2002	2003	2002	2003	2002
REVENUES						
Taxes	\$ 373	\$ 344	\$	\$	\$	\$
From federal agencies	6,437	3,020				
From licenses and permits:						
Boat registration	9,569	10,497				
Camping fees	19,388	19,232				
Hunting, fishing, and trapping licenses	48,738	49,047				
Motor vehicle parking fees	10,726	10,742				
Other licenses and permits	2,850	2,861				
Miscellaneous:						
Interest and investment revenue	6,870	8,692	18,193	22,033	95	178
Unrealized gain (loss) on investments	(1,586)	123	(4,870)	(397)		
Sale of timber	24,053	25,981				
Oil, gas, and mineral royalties	5,005	3,747	50,263	33,377		
Other miscellaneous revenue	2,731	2,835	355	247	4	
Total Revenues	<u>\$ 135,152</u>	<u>\$ 137,123</u>	<u>\$ 63,940</u>	<u>\$ 55,260</u>	<u>\$ 100</u>	<u>\$ 178</u>
EXPENDITURES						
Current	\$ 149,573	\$ 157,598	\$ 9,990	\$ 11,401	\$ 59	\$ 337
Capital outlay projects	11,149	15,239	19,846	39,012	6,855	28,302
Total Expenditures	<u>\$ 160,722</u>	<u>\$ 172,837</u>	<u>\$ 29,837</u>	<u>\$ 50,413</u>	<u>\$ 6,914</u>	<u>\$ 28,640</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (25,570)</u>	<u>\$ (35,714)</u>	<u>\$ 34,103</u>	<u>\$ 4,848</u>	<u>\$ (6,814)</u>	<u>\$ (28,461)</u>
OTHER FINANCING SOURCES						
Proceeds from bond issues	\$ 16,408	\$ 30,353	\$	\$	\$ 11,201	\$ 36,907
Premium on bond issuance	896	2,361			612	1,517
Transfers in:						
Investment income from Game and Fish Protection Trust Fund	10,676	11,467				
Oil and gas royalties from Michigan Natural Resources Trust Fund			10,000	10,000		
Gas tax from Michigan Transportation Fund	14,807	14,927				
From other departments						
From General Fund (Note 7)	2,456	1				
From other Department of Natural Resources' funds						
Total Financing Sources	<u>\$ 45,244</u>	<u>\$ 59,108</u>	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 11,813</u>	<u>\$ 38,424</u>
OTHER FINANCING USES						
Transfers out:						
To General Fund for other departments' services provided	\$ (5,884)	\$ (3,496)	\$ (78)	\$ (88)	\$ (2)	\$ (4)
To General Fund for budgetary savings (Note 5)	(7,800)					
To other Department of Natural Resources' funds	(10,676)	(11,467)	(10,000)	(10,000)		
Total Financing Uses	<u>\$ (24,360)</u>	<u>\$ (14,963)</u>	<u>\$ (10,078)</u>	<u>\$ (10,088)</u>	<u>\$ (2)</u>	<u>\$ (4)</u>
Total Other Financing Sources (Uses)	<u>\$ 20,884</u>	<u>\$ 44,146</u>	<u>\$ (78)</u>	<u>\$ (88)</u>	<u>\$ 11,811</u>	<u>\$ 38,419</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ (4,686)</u>	<u>\$ 8,431</u>	<u>\$ 34,025</u>	<u>\$ 4,760</u>	<u>\$ 4,996</u>	<u>\$ 9,958</u>
Fund Balances - Beginning of fiscal year	212,658	204,227	404,686	399,926	8,362	(1,596)
Fund Balances - End of fiscal year	<u>\$ 207,972</u>	<u>\$ 212,658</u>	<u>\$ 438,711</u>	<u>\$ 404,686</u>	<u>\$ 13,358</u>	<u>\$ 8,362</u>

The accompanying notes are an integral part of the financial statements.

DEPARTMENT OF NATURAL RESOURCES
Schedule of General Fund Revenues and Transfers
Fiscal Years Ended September 30
(in thousands)

REVENUES	<u>2003</u>	<u>2002</u>
From federal agencies	\$ 22,716	\$ 23,793
From licenses and permits:		
Snowmobile registration and trail fees	6,701	6,294
Off-road vehicle licenses	3,011	2,794
Other licenses and permits	1,163	1,188
Miscellaneous:		
Revenue from sales of land and leases	2,172	4,609
Other miscellaneous	3,956	3,886
Total Revenues	<u>\$ 39,719</u>	<u>\$ 42,565</u>
TRANSFERS		
From Michigan Transportation Fund	<u>\$ 3,702</u>	<u>\$ 3,732</u>
Total Transfers	<u>\$ 3,702</u>	<u>\$ 3,732</u>
Total Revenues and Transfers	<u><u>\$ 43,421</u></u>	<u><u>\$ 46,296</u></u>

The accompanying notes are an integral part of the financial schedules.

DEPARTMENT OF NATURAL RESOURCES
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Years Ended September 30
(in thousands)

	<u>2003</u>	<u>2002</u>
SOURCES OF AUTHORIZATIONS (Note 4)		
General purpose appropriations	\$ 43,125	\$ 45,313
Budgetary adjustments		115
Budgetary transfers in (out)		(29)
Balances carried forward	23,074	24,654
Restricted financing sources	44,741	46,788
Less: Intrafund expenditure reimbursements	<u>(1,763)</u>	<u>(1,902)</u>
 Total	 <u>\$ 109,177</u>	 <u>\$ 114,939</u>
 DISPOSITION OF AUTHORIZATIONS (Note 4)		
Gross expenditures and transfers	\$ 88,400	\$ 93,286
Less: Intrafund expenditure reimbursements	<u>(1,763)</u>	<u>(1,902)</u>
Net expenditures and transfers	<u>\$ 86,638</u>	<u>\$ 91,384</u>
Balances carried forward:		
Encumbrances	\$ 2,191	\$ 4,317
Restricted revenues - not authorized	<u>19,654</u>	<u>18,757</u>
Total balances carried forward	<u>\$ 21,845</u>	<u>\$ 23,074</u>
Balances lapsed	<u>\$ 695</u>	<u>\$ 482</u>
 Total	 <u>\$ 109,177</u>	 <u>\$ 114,939</u>

The accompanying notes are an integral part of the financial schedules.

Notes to the Financial Statements and Financial Schedules

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial statements report the financial position and changes in financial position of the following funds administered by the Department of Natural Resources (DNR) as of and for the fiscal years ended September 30, 2003 and September 30, 2002:

Special Revenue

Game and Fish Protection Fund
Michigan State Waterways Fund
Marine Safety Fund
Game and Fish Protection Trust Fund
State Park Improvement Fund
Combined Recreation Bond Fund - Local Projects
Michigan Nongame Fish and Wildlife Fund
Forest Development Fund

Permanent

Michigan Natural Resources Trust Fund
Michigan State Parks Endowment Fund
Michigan Civilian Conservation Corps Endowment Fund

Capital Projects

Combined Recreation Bond Fund - State Projects

The accompanying financial schedules report the results of the governmental operations of DNR for the fiscal years ended September 30, 2003 and September 30, 2002.

The governmental operations of DNR are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. The notes accompanying these financial statements and financial schedules relate directly to DNR. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting

Policies; Budgeting, Budgetary Control, and Legal Compliance; Treasurer's Common Cash; Pension Benefits and Other Postemployment Benefits; Deposits and Investments; and Interfund Receivables and Payables.

b. Measurement Focus, Basis of Accounting, and Presentation

The financial statements and financial schedules contained in this report are presented using the current financial resources measurement focus and the modified accrual basis of accounting, as provided by generally accepted accounting principles applicable to governments. Under the modified accrual basis of accounting, revenues are recognized as they become susceptible to accrual, generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred; however, certain expenditures related to long-term obligations are recorded only when payment is due and payable.

The accompanying financial statements present only the funds listed in Note 1a. Accordingly, they do not purport to, and do not, present fairly the financial position and the changes in financial position of the State of Michigan or its special revenue, permanent, and capital projects funds in conformity with generally accepted accounting principles.

The accompanying financial schedules include only the revenues and transfers and the sources and disposition of authorizations for DNR's General Fund accounts. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either DNR or the State's General Fund in conformity with generally accepted accounting principles.

The financial transactions of DNR are recorded in the General Fund and individual funds in the State's central accounting system. The various

natural resource funds are combined in the *SOMCAFR* into governmental fund types described as follows:

Special Revenue Funds: This fund group includes operating fund activities financed by specific revenue sources that are legally restricted for specified purposes.

Permanent Funds: This fund group reports resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizenry, such as State park preservation and others.

Capital Projects Fund: This group accounts for the acquisition or construction of major State capital facilities financed by bond proceeds and commercial paper notes.

Note 2 Permanent Investments

During fiscal year 2002-03, DNR and the Department of Treasury agreed to move specified amounts of common cash balances available for permanent investment into equity securities for certain funds. By statute, the State Treasurer is responsible for investing balances available for permanent investment. The State Treasurer, by agreement with DNR, invests up to the amount available for permanent investment each year. Prior to August 2002, the State Treasurer was prohibited by State law from investing in equity securities. The voters approved a constitutional amendment in August 2002 that allows the State Treasurer to invest in equity securities and other types of investments.

Note 3 Fund Balances Reserved for Restricted Revenues

The line entitled "Total Reserved" for special revenue funds on the combined balance sheet includes the following fund balances (in thousands) reserved for revenues restricted for specific purposes:

	September 30	
	2003	2002
<u>Game and Fish Protection Fund</u>		
Deer Habitat Improvement	\$ 6,321	\$ 5,587
Fisheries Settlement	1,242	1,445
Wildlife Resource Protection	575	652
Waterfowl Area Permits Program	34	20
Turkey Program	1,832	1,761
Youth Hunting and Fishing Education Outreach	253	218
Pittman-Robertson Program	459	508
Dingell-Johnson Program	101	85
Duck Stamp	1,512	1,287
Total	\$ 12,329	\$ 11,563
 <u>Michigan State Waterways Fund</u>		
Harbor Development Subfund	\$ 4	\$ 6,955
Total	\$ 4	\$ 6,955
 <u>State Park Improvement Fund</u>		
Haven Hill Area Consent Agreement	\$ 300	\$ 300
Total	\$ 300	\$ 300
Total Restricted Revenue Reserves	\$ 12,633	\$ 18,819

Note 4 Schedule of Sources and Disposition of General Fund Authorizations

The various elements of the schedule of sources and disposition of General Fund authorizations are defined as follows:

- a. General purpose appropriations: Original appropriations and any supplemental appropriations that are financed by General Fund/general purpose revenues.
- b. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenues - authorized, and restricted revenues -

not authorized that were not spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry-forward without additional legislative authorization, except for the restricted revenues - not authorized.

- c. Restricted financing sources: Collections of restricted revenues, restricted transfers, and restricted intrafund expenditure reimbursements to finance programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenues - authorized or restricted revenues - not authorized.
- d. Intrafund expenditure reimbursements: Funding from other General Fund departments to finance a program or a portion of a program that is the responsibility of the receiving department.
- e. Encumbrances: Authorizations carried forward to finance payments for goods or services ordered in the old fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general purpose appropriations.
- f. Restricted revenues - not authorized: Revenues that, by statute are restricted for use to a particular program or activity. However, DNR had not received legislative authorization to expend the revenues. Significant carry-forwards of this type were for snowmobile registration and trail fees (\$8.9 million and \$8.3 million for fiscal years 2002-03 and 2001-02, respectively) and off-road vehicle license fees (\$4.6 million and \$5.6 million and for fiscal years 2002-03 and 2001-02, respectively).
- g. Balances lapsed: Authorizations that were unexpended and unobligated at the end of the fiscal year. These amounts are available for legislative appropriation in the subsequent fiscal year.

Note 5 Interfund Commitments

In fiscal year 2002-03, Act 746, P.A. 2002, required the transfer of \$7.8 million from the Michigan State Waterways Fund to the General Fund. The Act states that, in the future, the General Fund is to provide reimbursement. Interfund receivables and payables are not recorded for this commitment because there is no repayment schedule and the repayment is considered long-term and budgetary in nature.

Note 6 Contingencies Related to Litigation

DNR accrues liabilities related to significant legal proceedings if a loss is probable and reasonably estimable. DNR is a party to various legal proceedings seeking damages or injunctive or other relief.

Note 7 Transfers in From General Fund

Interfund transfers were made from the General Fund, including \$1.3 million from the Off-Road Vehicle Subfund, \$0.6 million from the Snowmobile Registration Fee Subfund, and \$0.6 million from general purpose revenues, to the Game and Fish Protection Fund in fiscal year 2002-03 to comply with the Federal Advisory Audit Report issued in February 2003. The transfers were authorized by Act 746, P.A. 2002, and Act 147, P.A. 2003.

Note 8 Securities Lending Collateral

Under the authority of Act 314, P.A. 1965, the State lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The custodian is not liable for any losses unless there is negligence or willful misconduct on its part. State statutes allow the State to participate in securities lending transactions via a securities lending authorization agreement, authorizing the agent bank to lend its securities to broker-dealers and banks, pursuant to a form of loan agreement.

SUPPLEMENTAL
FINANCIAL STATEMENTS AND
FINANCIAL SCHEDULES

Descriptions of Special Revenue Funds

GAME AND FISH PROTECTION FUND

This Fund was established in 1921 and operates under Part 435, Act 451, P.A. 1994, as amended, and is financed principally by the sale of hunting and fishing licenses. The license fees are set by statute and their purpose is to support the conservation program for preservation and control of fish and wildlife. The Fund also receives funding from the investment earnings of the Game and Fish Protection Trust Fund. The Fund provides financial support for Statewide hunting and fishing programs, including resource management, research, enforcement of hunting and fishing laws, and acquisition of lands to be used for hunting and fishing purposes. Included in this Fund's financial statements are game and fish related subfunds, such as deer habitat improvement, which are funded by restricted revenues.

MICHIGAN STATE WATERWAYS FUND

This Fund was established in 1947 and operates under Part 781, Act 451, P.A. 1994, as amended. The Fund receives a portion of watercraft registration fees and gasoline taxes, some of which are collected by other State agencies and transferred to this Fund. The Fund also receives revenue from boating access site and concession fees. The Fund provides for improvement of lake harbors and inland waterways; construction, operation, and maintenance of recreational boating facilities; property acquisition; and administration.

In fiscal year 2002-03, Section 1602, Act 746, P.A. 2002, required the transfer of \$7.8 million from this Fund to the General Fund. Section 1602(3) provides that it is the intent of the Legislature that the General Fund reimburse the Michigan State Waterways Fund. No receivable is recorded in this Fund for the commitment. There is no repayment schedule for the reimbursement and the repayment is considered long-term and budgetary in nature. The Harbor Development Subfund is included in this Fund's financial statements.

MARINE SAFETY FUND

This Fund was established in 1967 and operates under Part 801, Act 451, P.A. 1994, as amended. The Fund is financed principally by 49% of watercraft registration fees imposed by this Act. The Fund provides for water safety education programs, law enforcement, and regulation of watercraft on the waters of this State.

GAME AND FISH PROTECTION TRUST FUND

This Fund was established in 1986 and operates under Part 437, Act 451, P.A. 1994, as amended, to restrict certain assets for the purpose of generating interest and investment earnings for transfer to the Game and Fish Protection Fund each year. In addition, the Legislature may appropriate up to \$6 million annually for use by the Game and Fish Protection Fund. Additional investment funding is being provided by mineral royalties from lands acquired by the Game and Fish Protection Fund, direct sale proceeds, and other revenues, which, by statute, are retained for permanent investment.

STATE PARK IMPROVEMENT FUND

This Fund was established in 1960 and operates under Part 741, Act 451, P.A. 1994, as amended. The Fund is primarily financed by State park use and concession fees and motor vehicle permit fees necessary for entry by motor vehicles into designated State parks. These fees are the primary funding source for the operation, maintenance, debt service, and improvements of the State park system. Revenues of this Fund are pledged as necessary for repayment of State Park Gross Revenue Bonds.

COMBINED RECREATION BOND FUND - LOCAL PROJECTS

This Fund was established in 1988 and operates under Parts 196 and 715, Act 451, P.A. 1994, as amended. The balances remaining in the Fund reflect proceeds and investment earnings remaining from two bond packages. The first bond package was \$70 million of general obligation bonds approved by voters in November 1988 as part of a \$140 million bond package for financing State and local public recreation projects. The second bond package was \$50 million of general obligation bonds approved by voters in November 1998 as part of a \$675 million bond package known as the "Clean Michigan Initiative." The proceeds from the bond package approved in 1988 were used to provide grants and loans to local units of government. Lapsed grants have been transferred to the General Fund and used for bond repayment. The proceeds from the bond package approved in 1998 are being used to provide grants to local units of government for local recreation projects.

MICHIGAN NONGAME FISH AND WILDLIFE FUND

This Fund was established in 1983 and currently operates under Part 439, Act 451, P.A. 1994, as amended. Fund revenues are used to finance research and management of nongame fish and wildlife, designated endangered species, and designated plant species of this State. The Fund may receive transfers from other funds, donations, investment income, and revenue from specialty license plate sales.

FOREST DEVELOPMENT FUND

This Fund was established in 1993, along with the Michigan Forest Finance Authority, and operates under Part 505, Act 451, P.A. 1994, as amended. The Authority is authorized to acquire: standing timber, timber cutting rights, and the State's interest in contracts granting cutting rights on State tax-reverted lands and on other lands in the State forest system. Revenues are derived from the sale of forest products and are used for forest management operations and practices. The Authority may issue, but thus far has not issued, bonds.

DEPARTMENT OF NATURAL RESOURCES
Combining Balance Sheet
Special Revenue Funds
As of September 30
(in thousands)

	Game and Fish Protection Fund		Michigan State Waterways Fund		Marine Safety Fund		Game and Fish Protection Trust Fund	
	2003	2002	2003	2002	2003	2002	2003	2002
ASSETS								
Cash	\$ 1	\$ 2	\$	\$ 3	\$	\$	\$	\$ 15
Equity in common cash	32,585	29,168	46,449	62,331	2,854	4,015	29,072	12,053
Taxes, interest, and penalties receivable			276	280				
Securities lending collateral							11,190	4,843
Amounts due from federal agencies	265	972	3,198		462	257		
Inventories			114	47				
Investments - Long-term	756	1,768					64,780	80,970
Other current assets	4,630	4,090	22	9			1,530	1,868
Other noncurrent assets			34	197				
Total Assets	\$38,237	\$36,000	\$50,093	\$62,867	\$3,317	\$4,272	\$106,571	\$99,749
LIABILITIES AND FUND BALANCES								
Liabilities:								
Warrants outstanding	\$ 362	\$ 477	\$ 570	\$ 185	\$ 33	\$ 177	\$	\$
Accounts payable and other liabilities	2,982	3,722	1,673	3,370	2,419	2,893	14	
Obligations under securities lending							11,190	4,843
Amounts due to other funds	264	176	55	36	6	2		
Deferred revenue								
Deferred revenue - Long-term			34	197				
Total Liabilities	\$ 3,608	\$ 4,375	\$ 2,332	\$ 3,789	\$2,459	\$3,073	\$ 11,203	\$ 4,843
Fund Balances:								
Reserves for:								
Budgetary carry-forwards:								
Encumbrances	\$ 2,666	\$ 2,705	\$18,741	\$10,903	\$ 41	\$ 124	\$	\$
Restricted revenues	12,329	11,563	4	6,955				
Multi-year projects	5,000	1,000	26,885	30,273				
Funds held as permanent investments	1,849	1,891					89,368	88,906
Total Reserved	\$21,844	\$17,160	\$45,630	\$48,131	\$ 41	\$ 124	\$ 89,368	\$88,906
Unreserved	12,785	14,466	2,131	10,948	818	1,076	6,000	6,000
Total Fund Balances	\$34,629	\$31,626	\$47,761	\$59,079	\$ 859	\$1,200	\$ 95,368	\$94,906
Total Liabilities and Fund Balances	\$38,237	\$36,000	\$50,093	\$62,867	\$3,317	\$4,272	\$106,571	\$99,749

State Park Improvement Fund		Combined Recreation Bond Fund-Local Projects		Michigan Nongame Fish and Wildlife Fund		Forest Development Fund		Total	
2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
\$ 20	\$ 54	\$	\$	\$	\$	\$ 56	\$ 13	\$ 77	\$ 88
11,261	13,481	14,678	10,838	566	1,526	8,803	11,503	146,268	144,916
								276	280
								11,190	4,843
						383	377	4,308	1,606
								114	47
				5,986	5,053			71,523	87,791
525	872			59	86	42	10	6,809	6,935
								34	197
<u>\$ 11,806</u>	<u>\$ 14,408</u>	<u>\$ 14,678</u>	<u>\$ 10,838</u>	<u>\$ 6,612</u>	<u>\$ 6,666</u>	<u>\$ 9,284</u>	<u>\$ 11,903</u>	<u>\$ 240,598</u>	<u>\$ 246,704</u>
\$ 57	\$ 338	\$ 564	\$ 976	\$ 5	\$ 7	\$ 119	\$ 97	\$ 1,710	\$ 2,257
1,565	2,357	7,772	10,265	99	98	1,893	2,947	18,417	25,652
								11,190	4,843
148	96	1	1	1	1	81	61	557	373
720	710						13	720	723
								34	197
<u>\$ 2,490</u>	<u>\$ 3,501</u>	<u>\$ 8,337</u>	<u>\$ 11,242</u>	<u>\$ 106</u>	<u>\$ 106</u>	<u>\$ 2,093</u>	<u>\$ 3,118</u>	<u>\$ 32,627</u>	<u>\$ 34,046</u>
\$ 4,302	\$ 682	\$	\$	\$ 27	\$ 82	\$ 1,172	\$ 558	\$ 26,948	\$ 15,055
300	300							12,633	18,819
288	4,218					505	828	32,679	36,318
				6,077	6,060			97,294	96,857
<u>\$ 4,890</u>	<u>\$ 5,200</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,104</u>	<u>\$ 6,142</u>	<u>\$ 1,677</u>	<u>\$ 1,386</u>	<u>\$ 169,555</u>	<u>\$ 167,048</u>
<u>4,425</u>	<u>5,707</u>	<u>6,341</u>	<u>\$ (404)</u>	<u>402</u>	<u>417</u>	<u>5,514</u>	<u>7,399</u>	<u>38,417</u>	<u>45,609</u>
<u>\$ 9,316</u>	<u>\$ 10,907</u>	<u>\$ 6,341</u>	<u>\$ (404)</u>	<u>\$ 6,507</u>	<u>\$ 6,559</u>	<u>\$ 7,191</u>	<u>\$ 8,785</u>	<u>\$ 207,972</u>	<u>\$ 212,658</u>
<u>\$ 11,806</u>	<u>\$ 14,408</u>	<u>\$ 14,678</u>	<u>\$ 10,838</u>	<u>\$ 6,612</u>	<u>\$ 6,666</u>	<u>\$ 9,284</u>	<u>\$ 11,903</u>	<u>\$ 240,598</u>	<u>\$ 246,704</u>

DEPARTMENT OF NATURAL RESOURCES
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Special Revenue Funds
Fiscal Years Ended September 30
(in thousands)

	Game and Fish Protection Fund		Michigan State Waterways Fund		Marine Safety Fund	
	2003	2002	2003	2002	2003	2002
REVENUES						
Taxes	\$	\$	\$ 373	\$ 344	\$	\$
From federal agencies	1,653	2,341	4,198	289	553	
From licenses and permits:						
Boat registration			4,880	5,354	4,689	5,144
Camping fees						
Hunting, fishing, and trapping licenses	48,738	49,047				
Motor vehicle parking fees						
Other licenses and permits		5	1,711	1,667		
Miscellaneous:						
Interest and investment revenue	503	641	736	1,269	55	96
Unrealized gain (loss) on investments	(14)	19				
Sale of timber	250	240				
Oil, gas, and mineral royalties	146	151				
Other miscellaneous revenue	1,017	1,329	1,008	847	275	18
Total Revenues	<u>\$ 52,294</u>	<u>\$ 53,773</u>	<u>\$ 12,906</u>	<u>\$ 9,769</u>	<u>\$ 5,572</u>	<u>\$ 5,258</u>
EXPENDITURES						
Current	\$ 55,989	\$ 55,064	\$ 26,431	\$ 22,717	\$ 4,779	\$ 7,011
Capital outlay projects	4,788	5,693	4,378	6,022		
Total Expenditures	<u>\$ 60,777</u>	<u>\$ 60,756</u>	<u>\$ 30,809</u>	<u>\$ 28,739</u>	<u>\$ 4,779</u>	<u>\$ 7,011</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (8,484)</u>	<u>\$ (6,984)</u>	<u>\$ (17,903)</u>	<u>\$ (18,971)</u>	<u>\$ 792</u>	<u>\$ (1,754)</u>
OTHER FINANCING SOURCES						
Proceeds from bond issues	\$	\$	\$	\$	\$	\$
Premium on bond issuance						
Transfers in:						
Investment income from Game and Fish Protection Trust Fund	10,676	11,467				
Gas tax from Michigan Transportation Fund			14,807	14,927		
From General Fund	2,456					1
Total Financing Sources	<u>\$ 13,132</u>	<u>\$ 11,467</u>	<u>\$ 14,807</u>	<u>\$ 14,927</u>	<u>\$ 0</u>	<u>\$ 1</u>
OTHER FINANCING USES						
Transfers out:						
To General Fund for other departments' services provided	\$ (1,645)	\$ (1,579)	\$ (421)	\$ (418)	\$ (1,134)	\$ (1,120)
To General Fund for budgetary savings			(7,800)			
To other Department of Natural Resources' funds						
Total Financing Uses	<u>\$ (1,645)</u>	<u>\$ (1,579)</u>	<u>\$ (8,221)</u>	<u>\$ (418)</u>	<u>\$ (1,134)</u>	<u>\$ (1,120)</u>
Total Other Financing Sources (Uses)	<u>\$ 11,487</u>	<u>\$ 9,887</u>	<u>\$ 6,586</u>	<u>\$ 14,509</u>	<u>\$ (1,134)</u>	<u>\$ (1,119)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ 3,004</u>	<u>\$ 2,904</u>	<u>\$ (11,317)</u>	<u>\$ (4,462)</u>	<u>\$ (341)</u>	<u>\$ (2,873)</u>
Fund Balances - Beginning of fiscal year	31,626	28,722	59,079	63,541	1,200	4,073
Fund Balances - End of fiscal year	<u>\$ 34,629</u>	<u>\$ 31,626</u>	<u>\$ 47,761</u>	<u>\$ 59,079</u>	<u>\$ 859</u>	<u>\$ 1,200</u>

Game and Fish Protection Trust Fund		State Park Improvement Fund		Combined Recreation Bond Fund - Local Projects		Michigan Nongame Fish and Wildlife Fund		Forest Development Fund		Total	
2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$ 373	\$ 344
							7	32	384	6,437	3,020
										9,569	10,497
		19,388	19,232							19,388	19,232
										48,738	49,047
		10,726	10,742							10,726	10,742
		1,138	1,189					1	1	2,850	2,861
4,966	5,519	159	215	61	381	248	349	143	222	6,870	8,692
(1,590)	46					17	57			(1,586)	123
3,203	2,850	9	6					20,590	22,886	24,053	25,981
4,859	3,597									5,005	3,747
		52	354	1		241	239	136	48	2,731	2,835
<u>\$ 11,438</u>	<u>\$ 12,012</u>	<u>\$ 31,472</u>	<u>\$ 31,738</u>	<u>\$ 62</u>	<u>\$ 381</u>	<u>\$ 506</u>	<u>\$ 652</u>	<u>\$ 20,903</u>	<u>\$ 23,541</u>	<u>\$ 135,152</u>	<u>\$ 137,123</u>
\$ 290	\$ 53	\$ 29,616	\$ 29,233	\$ 9,718	\$ 20,046	\$ 555	\$ 772	\$ 22,195	\$ 22,702	\$ 149,573	\$ 157,598
		1,824	3,351					159	173	11,149	15,239
<u>\$ 290</u>	<u>\$ 53</u>	<u>\$ 31,440</u>	<u>\$ 32,585</u>	<u>\$ 9,718</u>	<u>\$ 20,046</u>	<u>\$ 555</u>	<u>\$ 772</u>	<u>\$ 22,354</u>	<u>\$ 22,875</u>	<u>\$ 160,722</u>	<u>\$ 172,837</u>
<u>\$ 11,148</u>	<u>\$ 11,959</u>	<u>\$ 32</u>	<u>\$ (847)</u>	<u>\$ (9,656)</u>	<u>\$ (19,666)</u>	<u>\$ (49)</u>	<u>\$ (119)</u>	<u>\$ (1,451)</u>	<u>\$ 666</u>	<u>\$ (25,570)</u>	<u>\$ (35,714)</u>
\$	\$	\$	\$	\$ 16,408	\$ 30,353	\$	\$	\$	\$	\$ 16,408	\$ 30,353
				896	2,361					896	2,361
										10,676	11,467
										14,807	14,927
										2,456	1
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 17,304</u>	<u>\$ 32,715</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 45,244</u>	<u>\$ 59,108</u>
\$ (10)	\$ (11)	\$ (1,623)	\$ (212)	\$ (903)	\$ (3)	\$ (4)	\$ (6)	\$ (144)	\$ (147)	\$ (5,884)	\$ (3,496)
										(7,800)	0
<u>\$ (10,676)</u>	<u>\$ (11,467)</u>									<u>(10,676)</u>	<u>(11,467)</u>
<u>\$ (10,686)</u>	<u>\$ (11,478)</u>	<u>\$ (1,623)</u>	<u>\$ (212)</u>	<u>\$ (903)</u>	<u>\$ (3)</u>	<u>\$ (4)</u>	<u>\$ (6)</u>	<u>\$ (144)</u>	<u>\$ (147)</u>	<u>\$ (24,360)</u>	<u>\$ (14,963)</u>
<u>\$ (10,686)</u>	<u>\$ (11,478)</u>	<u>\$ (1,623)</u>	<u>\$ (212)</u>	<u>\$ 16,401</u>	<u>\$ 32,712</u>	<u>\$ (4)</u>	<u>\$ (6)</u>	<u>\$ (144)</u>	<u>\$ (147)</u>	<u>\$ 20,884</u>	<u>\$ 44,146</u>
\$ 462	\$ 481	\$ (1,591)	\$ (1,059)	\$ 6,745	\$ 13,046	\$ (53)	\$ (125)	\$ (1,594)	\$ 519	\$ (4,686)	\$ 8,431
94,906	94,424	10,907	11,966	(404)	(13,450)	6,559	6,684	8,785	8,266	212,658	204,227
<u>\$ 95,368</u>	<u>\$ 94,906</u>	<u>\$ 9,316</u>	<u>\$ 10,907</u>	<u>\$ 6,341</u>	<u>\$ (404)</u>	<u>\$ 6,507</u>	<u>\$ 6,559</u>	<u>\$ 7,191</u>	<u>\$ 8,785</u>	<u>\$ 207,972</u>	<u>\$ 212,658</u>

Descriptions of Permanent Funds

MICHIGAN NATURAL RESOURCES TRUST FUND

The State Constitution was amended in 1984 to provide for a Michigan Natural Resources Trust Fund. The Fund, established in 1985, operates under Part 19, Act 451, P.A. 1994, as amended. Most rentals, royalties, and other revenues derived from mineral, coal, oil, and gas interests on State-owned land are credited to the Fund. Part 19 was amended in 1995 to redirect a portion (50%, up to \$10 million per year) of these revenues to the Michigan State Parks Endowment Fund. The voters approved a constitutional amendment in August 2002, which increased the amount that can be accumulated to \$500 million, modified the distribution formula, and allows the State Treasurer to invest in equity securities and other types of investments.

In accordance with statutory provisions, this Fund is to accumulate up to \$500 million in reserves for permanent investments. The amount accumulated toward this cap is shown as a reservation of fund balance. Interest and investment earnings and one-third of royalty earnings are available for appropriation. Two-thirds of royalty earnings, less the portion transferred to the Michigan State Parks Endowment Fund, are added to amounts held for permanent investments until the investment reserve reaches \$500 million. After that time, all royalties are transferred to the Michigan State Parks Endowment Fund, and only the interest and investment earnings are available for appropriation. Appropriated funds are used for grants to local units of government and State agencies to acquire land, develop outdoor public recreation facilities, and make payments in lieu of property taxes on State land acquired by the Fund.

MICHIGAN STATE PARKS ENDOWMENT FUND

This Fund was established in 1994 and operates under Part 741, Act 451, P.A. 1994, as amended, to finance operations, maintenance, and capital improvements at Michigan State parks. The voters approved a constitutional amendment in August 2002 that changed the distribution formula and allows the State Treasurer to invest in equity securities and other types of investments.

The Fund was established with a \$40 million transfer from the sale of the Accident Fund of Michigan to provide funds for permanent investments. By statute, up to \$10 million per year of revenues from oil and gas bonuses, rentals, and royalties from State-owned land are to be deposited in this Fund until the Michigan Natural Resources Trust Fund reaches an accumulated principal of \$500 million, after which time all such revenue

previously going to that Fund will go to this Fund. The Fund's investment reserve will be capped at \$800 million. The Legislature is limited to appropriating no more than 50% of the amount transferred from the Michigan Natural Resources Trust Fund plus interest and investment earnings. When the Fund's reserve reaches \$800 million, only the interest and earnings in excess of the amount needed to maintain the \$800 million principal limit may be expended.

MICHIGAN CIVILIAN CONSERVATION CORPS ENDOWMENT FUND

This Fund was established by Act 394, P.A.1994, as amended. The Michigan Civilian Conservation Corps was established for the purpose of conserving, improving, and developing the State's natural resources, and for enhancing, preserving, and maintaining public lands and waters through the employment of residents of this State in work training programs. The Fund's permanent investment reserve was provided by \$20 million earmarked from the sale of the Accident Fund of Michigan. Only the interest and investment earnings of the Fund can be expended.

DEPARTMENT OF NATURAL RESOURCES

Combining Balance Sheet

Permanent Funds

As of September 30

(in thousands)

	Michigan Natural Resources Trust Fund		Michigan State Parks Endowment Fund		Michigan Civilian Conservation Corps Endowment Fund		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
	ASSETS							
Equity in common cash	\$ 141,502	\$ 87,309	\$ 40,227	\$ 29,351	\$ 346	\$ 3,682	\$ 182,075	\$ 120,342
Securities lending collateral	26,003	15,489	14,736	6,568			40,739	22,057
Investments - Long-term	144,237	177,093	85,487	89,159	20,088	16,806	249,811	283,059
Other current assets	9,521	9,022	1,144	1,443	144	237	10,809	10,701
Total Assets	\$ 321,263	\$ 288,914	\$ 141,593	\$ 126,521	\$ 20,578	\$ 20,725	\$ 483,434	\$ 436,159
LIABILITIES AND FUND BALANCES								
Liabilities:								
Warrants outstanding	\$ 1,305	\$ 1,214	\$ 40	\$ 39	\$	\$ 27	\$ 1,345	\$ 1,279
Accounts payable and other liabilities	2,373	7,565	205	431	39	130	2,617	8,126
Obligations under securities lending	26,003	15,489	14,736	6,568			40,739	22,057
Amounts due to other funds	9	7	9	4	4	1	22	12
Total Liabilities	\$ 29,690	\$ 24,274	\$ 14,989	\$ 7,041	\$ 42	\$ 158	\$ 44,723	\$ 31,474
Fund Balances:								
Reserves for:								
Budgetary carry-forwards:								
Encumbrances	\$ 12,802	\$ 16,725	\$ 2,859	\$ 1,475	\$ 28	\$ 8	\$ 15,689	\$ 18,207
Multi-year projects	24,341	16,575	3,903	559			28,245	17,134
Funds held as permanent investments	230,528	203,417	109,254	106,018	20,265	20,174	360,048	329,609
Total Reserved	\$ 267,671	\$ 236,717	\$ 116,017	\$ 108,052	\$ 20,294	\$ 20,181	\$ 403,982	\$ 364,949
Unreserved	23,901	27,922	10,587	11,428	242	386	34,730	39,736
Total Fund Balances	\$ 291,572	\$ 264,639	\$ 126,604	\$ 119,480	\$ 20,535	\$ 20,567	\$ 438,711	\$ 404,686
Total Liabilities and Fund Balances	\$ 321,263	\$ 288,914	\$ 141,593	\$ 126,521	\$ 20,578	\$ 20,725	\$ 483,434	\$ 436,159

DEPARTMENT OF NATURAL RESOURCES
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Permanent Funds
Fiscal Years Ended September 30
(in thousands)

	Michigan Natural Resources Trust Fund		Michigan State Parks Endowment Fund		Michigan Civilian Conservation Corps Endowment Fund		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
	2003	2002	2003	2002	2003	2002	2003	2002
REVENUES								
Miscellaneous:								
Interest and investment revenue	\$ 11,526	\$ 14,511	\$ 5,900	\$ 6,482	\$ 766	\$ 1,041	\$ 18,193	\$ 22,033
Unrealized gain (loss) on investments	(3,198)	(516)	(1,764)	(49)	92	168	(4,870)	(397)
Oil, gas, and mineral royalties	50,263	33,377					50,263	33,377
Other miscellaneous revenue	354	247			1		355	247
Total Revenues	<u>\$ 58,945</u>	<u>\$ 47,619</u>	<u>\$ 4,137</u>	<u>\$ 6,433</u>	<u>\$ 858</u>	<u>\$ 1,209</u>	<u>\$ 63,940</u>	<u>\$ 55,260</u>
EXPENDITURES								
Current	\$ 3,338	\$ 4,891	\$ 5,770	\$ 4,951	\$ 883	\$ 1,559	\$ 9,990	\$ 11,401
Capital outlay projects	18,633	38,115	1,213	897			19,846	39,012
Total Expenditures	<u>\$ 21,971</u>	<u>\$ 43,006</u>	<u>\$ 6,983</u>	<u>\$ 5,848</u>	<u>\$ 883</u>	<u>\$ 1,559</u>	<u>\$ 29,837</u>	<u>\$ 50,413</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 36,974</u>	<u>\$ 4,613</u>	<u>\$ (2,846)</u>	<u>\$ 585</u>	<u>\$ (25)</u>	<u>\$ (350)</u>	<u>\$ 34,103</u>	<u>\$ 4,848</u>
OTHER FINANCING SOURCES								
Transfers in:								
Oil and gas royalties from Michigan Natural Resources Trust Fund	\$	\$	\$ 10,000	\$ 10,000	\$	\$	\$ 10,000	\$ 10,000
Total Financing Sources	<u>\$</u>	<u>\$</u>	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$</u>	<u>\$</u>	<u>\$ 10,000</u>	<u>\$ 10,000</u>
OTHER FINANCING USES								
Transfers out:								
To General Fund for other departments' services provided	\$ (41)	\$ (46)	\$ (30)	\$ (32)	\$ (7)	\$ (10)	\$ (78)	\$ (88)
To other Department of Natural Resources' funds	(10,000)	(10,000)					(10,000)	(10,000)
Total Financing Uses	<u>\$ (10,041)</u>	<u>\$ (10,046)</u>	<u>\$ (30)</u>	<u>\$ (32)</u>	<u>\$ (7)</u>	<u>\$ (10)</u>	<u>\$ (10,078)</u>	<u>\$ (10,088)</u>
Total Other Financing Sources (Uses)	<u>\$ (10,041)</u>	<u>\$ (10,046)</u>	<u>\$ 9,970</u>	<u>\$ 9,968</u>	<u>\$ (7)</u>	<u>\$ (10)</u>	<u>\$ (78)</u>	<u>\$ (88)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 26,933	\$ (5,434)	\$ 7,124	\$ 10,553	\$ (32)	\$ (360)	\$ 34,025	\$ 4,760
Fund Balances - Beginning of fiscal year	264,639	270,073	119,480	108,927	20,567	20,927	404,686	399,926
Fund Balances - End of fiscal year	<u>\$ 291,572</u>	<u>\$ 264,639</u>	<u>\$ 126,604</u>	<u>\$ 119,480</u>	<u>\$ 20,535</u>	<u>\$ 20,567</u>	<u>\$ 438,711</u>	<u>\$ 404,686</u>

Description of Capital Projects Fund

COMBINED RECREATION BOND FUND - STATE PROJECTS

This Fund was established in 1988 and operates under Parts 196, 715, and 741, Act 451, P.A. 1994, as amended. The balances remaining in the Fund reflect proceeds and investment earnings remaining from three bond packages. The first bond package was \$70 million of general obligation bonds approved by voters in November 1988 as part of a \$140 million bond package for financing State and local public recreation projects. The second bond package was \$50 million of general obligation bonds approved by voters in November 1998 as part of a \$675 million bond package known as the "Clean Michigan Initiative." The third bond package was \$15.5 million of State Park Gross Revenue Bonds issued in September 2002.

The proceeds from the bond package approved in 1988 were used to construct, expand, and develop recreational facilities at State parks. The proceeds from the bond package approved in 1998 are being used for infrastructure improvements at State parks. The proceeds from the bond package approved in 2002 were used to finance a major renovation of the Sterling State Park.

The capital projects fund's financial statements appear on pages 14 and 15.

DEPARTMENT OF NATURAL RESOURCES
Schedule of Certain General Fund Assets and Liabilities
Fiscal Years Ended September 30
(in thousands)

ASSETS	2003	2002
Amounts due from federal agencies	\$ 10,695	\$ 10,706
Inventories	\$ 9	\$ 18
Other current assets	\$ 366	\$ 372
LIABILITIES		
Amounts due to vendors for goods and services	\$ 3,749	\$ 4,792
Amounts due to local units for tax-reverted land	\$ 1,004	\$ 939
Amounts due to other funds	\$ 5	\$ 9
Amounts held for others	\$ 1,341	\$ 1,409
Deferred revenue	\$ 168	\$ 100

This schedule is not a balance sheet and is not intended to report financial position. The schedule presents certain General Fund assets and liabilities that are the responsibility of the Department of Natural Resources. The schedule does not include assets and liabilities that are accounted for centrally by the State, such as equity in common cash, cash in transit, and warrants outstanding.

DEPARTMENT OF NATURAL RESOURCES
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2001 through September 30, 2003

<u>Federal Agency/Program</u>	<u>CFDA (2)</u> <u>Number</u>	<u>For the Fiscal Year Ended September 30, 2002</u>		
		<u>Directly</u> <u>Expended</u>	<u>Distributed</u> <u>to Subrecipients</u>	<u>Total Expended</u> <u>and Distributed</u>
<u>U.S. Department of Agriculture</u>				
Direct Programs:				
Plant and Animal Disease, Pest Control, and Animal Care	10.025	\$ 500,000	\$	\$ 500,000
Forestry Incentives Program	10.064	4,462		4,462
Conservation Reserve Program	10.069	9,128		9,128
Cooperative Forestry Assistance	10.664	1,076,464	110,481	1,186,945
Schools and Roads - Grants to States	10.665		3,058,945	3,058,945
Rural Development, Forestry, and Communities	10.672	29,932		29,932
Soil Survey	10.903	198,751		198,751
Total U.S. Department of Agriculture		\$ 1,818,737	\$ 3,169,426	\$ 4,988,163
<u>U.S. Department of Commerce</u>				
Direct Programs:				
Anadromous Fish Conservation Act Program	11.405	\$ 24,337	\$	\$ 24,337
Interjurisdictional Fisheries Act of 1986	11.407	10,795		10,795
Total U.S. Department of Commerce		\$ 35,132	\$ 0	\$ 35,132
<u>U.S. Department of the Interior</u>				
Direct Programs:				
Sport Fish Restoration	15.605	\$ 7,906,133	\$	\$ 7,906,133
Wildlife Restoration	15.611	8,378,551		8,378,551
Cooperative Endangered Species Conservation Fund	15.615	294,616		294,616
Clean Vessel Act	15.616		52,504	52,504
Wildlife Conservation and Restoration	15.625	472,561		472,561
Landowner Incentive	15.633			0
State Wildlife Grants	15.634			0
U.S. Geological Survey - Research and Data Acquisition	15.808	37,643		37,643
Gap Analysis Program	15.811	111,047		111,047
Outdoor Recreation - Acquisition, Development, and Planning	15.916	240,203	194,483	434,686
Endangered Species	15.301810J068 (3)	16,800		16,800
Total U.S. Department of the Interior		\$ 17,457,554	\$ 246,987	\$ 17,704,541
<u>U.S. Department of Transportation</u>				
Direct Program:				
Recreational Trails Program	20.219	\$ 1,511,874	\$	\$ 1,511,874
Total U.S. Department of Transportation		\$ 1,511,874	\$ 0	\$ 1,511,874
<u>U.S. Environmental Protection Agency</u>				
Direct Program:				
Great Lakes Program	66.469	\$	\$	\$ 0
Total U.S. Environmental Protection Agency		\$ 0	\$ 0	\$ 0

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2003

Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
\$	\$	\$ 0	\$ 500,000
		0	4,462
		0	9,128
689,765	360,802	1,050,567	2,237,512
	2,510,417	2,510,417	5,569,362
19,484		19,484	49,416
		0	198,751
\$ 709,249	\$ 2,871,219	\$ 3,580,468	\$ 8,568,631
\$ 3,827	\$	\$ 3,827	\$ 28,164
10,959		10,959	21,754
\$ 14,786	\$ 0	\$ 14,786	\$ 49,918
\$ 12,243,375	\$	\$ 12,243,375	\$ 20,149,508
7,400,135		7,400,135	15,778,686
339,590		339,590	634,206
4,057	23,744	27,801	80,305
481,981		481,981	954,542
1,176		1,176	1,176
397,089		397,089	397,089
		0	37,643
69,648		69,648	180,695
370,453	550,712	921,165	1,355,851
7,575		7,575	24,375
\$ 21,315,079	\$ 574,456	\$ 21,889,535	\$ 39,594,076
\$ 1,215,130	\$	\$ 1,215,130	\$ 2,727,004
\$ 1,215,130	\$ 0	\$ 1,215,130	\$ 2,727,004
\$ 64,178	\$	\$ 64,178	\$ 64,178
\$ 64,178	\$ 0	\$ 64,178	\$ 64,178

DEPARTMENT OF NATURAL RESOURCES
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2001 through September 30, 2003
Continued

Federal Agency/Program	CFDA (2) Number	For the Fiscal Year Ended September 30, 2002		
		Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<u>U.S. Department of Homeland Security</u>				
Direct Program:				
Boating Safety Financial Assistance (20.005)	97.012 (4)	\$ 2,275,996	\$ 0	\$ 2,275,996
Total U.S. Department of Homeland Security		\$ 2,275,996	\$ 0	\$ 2,275,996
Total Federal Expenditures		<u>\$ 23,099,293</u>	<u>\$ 3,416,413</u>	<u>\$ 26,515,706</u>

(1) Basis of Presentation: This schedule includes the federal grant activity of the Department of Natural Resources and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements and financial schedules.

(2) CFDA is defined as *Catalog of Federal Domestic Assistance*.

(3) CFDA number not available. Number derived from federal agency number and grant or contract number, if available.

(4) During fiscal year 2002-03, the federal government moved the Boating Safety Financial Assistance Program into the U.S. Department of Homeland Security and revised the CFDA program number to reflect the new federal agency designation. The original CFDA number is noted in parentheses following the program name.

For the Fiscal Year Ended September 30, 2003

<u>Directly Expended</u>	<u>Distributed to Subrecipients</u>	<u>Total Expended and Distributed</u>	<u>Total Expended and Distributed for the Two-Year Period</u>
\$ 2,655,005	\$ 0	\$ 2,655,005	\$ 4,931,001
\$ 2,655,005	\$ 0	\$ 2,655,005	\$ 4,931,001
<u>\$ 25,973,427</u>	<u>\$ 3,445,675</u>	<u>\$ 29,419,102</u>	<u>\$ 55,934,808</u>

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INDEPENDENT AUDITOR'S REPORTS ON
COMPLIANCE AND INTERNAL CONTROL



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting

March 5, 2004

Mr. Keith J. Charters, Chairperson
Natural Resources Commission
and
Mr. K. L. Cool, Director
Department of Natural Resources
Stevens T. Mason Building
Lansing, Michigan

Dear Mr. Charters and Mr. Cool:

We have audited the financial statements and financial schedules of the Department of Natural Resources as of and for the fiscal years ended September 30, 2003 and September 30, 2002, as identified in the table of contents, and have issued our report thereon dated March 5, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department's financial statements and financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement and financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and financial schedules and not to provide assurance on internal control over financial reporting. However, we noted

certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements and financial schedules. The reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 1 and 2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements and financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that neither of the reportable conditions identified in the previous paragraph is a material weakness.

This report is intended solely for the information and use of the Natural Resources Commission, the State's management, the Legislature, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on Compliance With
Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in
Accordance With OMB Circular A-133

March 5, 2004

Mr. Keith J. Charters, Chairperson
Natural Resources Commission
and
Mr. K. L. Cool, Director
Department of Natural Resources
Stevens T. Mason Building
Lansing, Michigan

Dear Mr. Charters and Mr. Cool:

Compliance

We have audited the compliance of the Department of Natural Resources with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each major federal program for the two-year period ended September 30, 2003. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the previous paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with

those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

In our opinion, the Department of Natural Resources complied, in all material respects, with the requirements referred to in the second previous paragraph that are applicable to each major federal program for the two-year period ended September 30, 2003.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Natural Resources Commission, the State's management, the Legislature, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Statements and Financial Schedules

Type of auditor's reports issued: Unqualified*

Internal control* over financial reporting:

Material weaknesses* identified? No

Reportable conditions* identified that are not considered to be material weaknesses? Yes

Noncompliance material to the financial statements and financial schedules? No

Federal Awards

Internal control over major programs:

Material weaknesses identified? No

Reportable conditions identified that are not considered to be material weaknesses? None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, Section 510(a)? No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
15.605	Sport Fish Restoration
15.611	Wildlife Restoration
20.219	Recreational Trails Program

* See glossary at end of report for definition.

Dollar threshold used to distinguish between type A and type B programs: \$1,678,044

Auditee qualified as a low-risk auditee*? No

Section II: Findings Related to the Financial Statements and Financial Schedules

FINDING (750401)

1. Revenue for State Parks, Harbor Sites, and Boating Access Sites

The Department of Natural Resources' (DNR's) internal control did not ensure that all revenue received at State parks, harbor sites, and boating access sites had been properly deposited and recorded in the State accounting records.

Our review disclosed:

- a. DNR did not maintain proper internal control over State park motor vehicle permits. Although DNR maintained a record of permits sent to State parks, it did not reconcile revenue recorded with permits issued, voided, or returned. As a result, DNR had no assurance that all revenue from the sale of motor vehicle permits was received and deposited in the State Park Improvement Fund.

Revenue from sales of motor vehicle permits at State parks totaled \$10.7 million and \$10.6 million for fiscal years 2002-03 and 2001-02, respectively.

- b. DNR did not reconcile revenue collected at State parks, harbor sites, and boating access sites with the State accounting records. The Parks and Recreation Division required State parks and harbor sites to submit weekly remittance reports summarizing all revenue collected. The Division verified that revenue reported on individual weekly remittance reports had been properly deposited and recorded in the State accounting records. However, DNR had not established procedures to reconcile total remittance report balances with the State accounting records.

* See glossary at end of report for definition.

Revenue collected at State parks, harbor sites, and boating access sites for camping fees, boating access permits, concessions, and marine fuel sales totaled \$7 million for fiscal year 2002-03 and \$7 million for fiscal year 2001-02.

Section 18.1485(2) of the *Michigan Compiled Laws* states that each internal accounting and administrative control system shall include a system of authorization and recordkeeping procedures to control assets, liabilities, revenues, and expenditures.

As of February 2004, DNR had substantially developed a new automated system for maintaining controls over motor vehicle permits and for reconciling revenue. DNR staff informed us that they were in the process of implementing this system at State parks.

RECOMMENDATION

We recommend that DNR improve its internal control to help ensure that all revenue received at State parks, harbor sites, and boating access sites is properly deposited and recorded in the State accounting records.

FINDING (750402)

2. Retail Sales System Controls

DNR's internal control for retail sales of licenses did not minimize the risk of fraud or misuse of voided licenses.

Because a potential for fraud or misuse exists when licenses are voided, DNR should establish procedures to review voided licenses at least on a test basis.

DNR contracts with sales agents throughout the State to sell hunting, fishing, snowmobile, and off-road vehicle licenses using an automated retail sales system. In fiscal year 2002-03, DNR sales agents sold approximately 4.8 million licenses totaling \$52,939,193.

DNR requires sales agents to submit voided licenses to the central office. However, DNR did not verify that all voided licenses were submitted and did not review the voided licenses to ensure their propriety. For fiscal year 2002-03, sales agents voided 101,271 (2.1%) licenses totaling \$1,232,156.

RECOMMENDATION

We recommend that DNR improve its internal control for retail sales of licenses to minimize the risk of fraud or misuse of voided licenses.

The status of the findings related to the financial statements and financial schedules that were reported in prior Single Audits is disclosed in the summary schedule of prior audit findings.

Section III: Findings and Questioned Costs* Related to Federal Awards

We did not report any findings related to federal awards.

** See glossary at end of report for definition.*

OTHER SCHEDULES

DEPARTMENT OF NATURAL RESOURCES
Summary Schedule of Prior Audit Findings
As of September 30, 2003

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL STATEMENTS AND FINANCIAL SCHEDULES

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 1999 through September 30, 2001

Finding Number: 750201

Finding Title: Cost Allocation for Central Service Costs

Finding: The Department of Natural Resources (DNR) did not base its allocation of central service costs on a documented cost allocation plan. As a result, it did not have assurance that its charges to State restricted funding sources were appropriate.

Comments: DNR has complied with this recommendation. DNR maintained documentation demonstrating that the necessary adjustments were requested during the budget development process to align State restricted funding sources with the cost allocation plans, based on fiscal year 2001-02 and fiscal year 2002-03 actual expenditures.

Audit Period: October 1, 1999 through September 30, 2001

Finding Number: 750202

Finding Title: Appropriation for Senior Citizen License Fee Discounts

Finding: DNR did not ensure that it complied with statutory requirements for funding appropriated for senior citizen hunting and fishing license fee discounts.

Comments: This finding is not applicable anymore because the Legislature, by concurrence with Executive Order No. 2001-9, chose to eliminate any General Fund/general purpose reimbursement to DNR for senior licenses.

Audit Period: October 1, 1999 through September 30, 2001
Finding Number: 750203
Finding Title: Distribution of Indirect Cost Revenue

Finding: DNR did not distribute federal indirect cost revenue to the respective funding sources of the costs as required by Section 18.1460 of the *Michigan Compiled Laws*.

Comments: DNR has complied with statutory requirements and ensures that indirect cost revenue is equitably distributed. DNR continues to use the methods approved by the Department of Management and Budget to distribute indirect recoveries, which we believe appropriately reimburses the proper funds for administrative costs incurred.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

There were no findings related to federal awards in the prior Single Audit.

DEPARTMENT OF NATURAL RESOURCES

Corrective Action Plan

As of June 21, 2004

FINDINGS RELATED TO THE FINANCIAL STATEMENTS AND FINANCIAL SCHEDULES

Finding Number: 750401

Finding Title: Revenue for State Parks, Harbor Sites, and Boating Access Sites

Management Views: We agree with the recommendation and have complied.

Corrective Action: The Department of Natural Resources (DNR) implemented an electronic Cash, Accounting, and Reporting System (CARS) during February 2004. Staff at all State parks, harbor sites, and boating access sites where revenue is collected were trained on the new system in January and February 2004. As of May 28, 2004, staff have entered sales and revenue information for all locations into the new system back to October 1, 2003. Staff from the Parks and Recreation Bureau and the Financial Services Division are currently reconciling the information in CARS to the State accounting system for each location.

Anticipated Completion Date: November 12, 2004

Responsible Individual: Amy Henderson, Manager, Funds and Revenue Accounting

Finding Number: 750402

Finding Title: Retail Sales System Controls

Management Views: We concur with this finding.

Corrective Action: DNR has prepared and will implement a procedure to audit voided licenses. We will also continue to examine processes and implement procedures to minimize the opportunity for fraud and misuse of voided licenses within the retail sales system.

Anticipated Completion Date: July 1, 2004

Responsible Individual: Jim Wood, Chief
Grants, Contracts, and Customer Systems

FINDINGS RELATED TO FEDERAL AWARDS

There were no findings related to federal awards for the two-year period ended September 30, 2003.

GLOSSARY

Glossary of Acronyms and Terms

CARS	Cash, Accounting, and Reporting System.
CFDA	<i>Catalog of Federal Domestic Assistance.</i>
DNR	Department of Natural Resources.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are fairly presented in conformity with the disclosed basis of accounting.
internal control	A process, effected by management, designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual Single Audit and it meets other criteria related to prior audit results. In accordance with State statute, this Single Audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the results of operations or cash flows in conformity with the disclosed basis of accounting.
material noncompliance	Violations of laws and regulations that could have a direct and material effect on major federal programs or on financial schedule and/or financial statement amounts.
material weakness	A reportable condition related to the design or operation of internal control that does not reduce to a relatively low level

the risk that either misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

OMB

U.S. Office of Management and Budget.

questioned cost

A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

reportable condition

A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the entity's ability to (1) record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules and/or financial statements or (2) administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants.

Single Audit

A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in

accordance with the requirements of auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.

SOMCAFR

State of Michigan Comprehensive Annual Financial Report.

unqualified opinion

An auditor's opinion in which the auditor states that:

- a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; or
- b. The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules taken by themselves; or
- c. The audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.