



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



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

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– Article IV, Section 53 of the Michigan Constitution

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Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit

*Recreational Watercraft Access and Harbor
Development Activities
Department of Natural Resources*

Report Number:
751-0156-10

Released:
May 2011

The Michigan State Waterways Commission works in an advisory capacity to the Department of Natural Resources (DNR) to provide safe public access to the Great Lakes and inland waters of the State of Michigan. DNR is responsible for the acquisition, construction, and operation of the infrastructure needed to support recreational watercraft access and harbor development activities.

DNR and the Department of Environmental Quality were abolished by Executive Order No. 2009-45 and combined and renamed the Department of Natural Resources and Environment effective January 17, 2010. The Department of Natural Resources and Environment was abolished by Executive Order No. 2011-11 and again split into two separate departments, the Department of Natural Resources and the Department of Environmental Quality, effective March 13, 2011. Our audit objectives were developed based on DNR operations of recreational watercraft access and harbor development activities. Our audit recommendations are directed to DNR as it will be responsible for corrective action.

Audit Objective:

To assess the effectiveness of DNR's process for identifying and funding recreational watercraft access and harbor development projects.

Audit Conclusion:

We concluded that DNR's process was effective for identifying and was not effective for funding recreational watercraft access and harbor development projects. We noted one material condition ([Finding 1](#)) and one reportable condition ([Finding 2](#)).

Material Condition:

DNR did not comply with State law when expending State restricted funding for State and local waterways projects. In addition, DNR did not comply with State law to seek legislative approval for increased budgetary authorizations when local waterways project costs exceeded amounts identified and authorized in its capital outlay appropriations acts. Further, DNR did not ensure that only reasonable costs were reimbursed for a local waterways project. As a result, DNR spent \$4,024,946 of State restricted funds for recreational watercraft access and harbor development project costs without authorization from the Legislature and reimbursed a local community for \$17,800 in questionable costs. ([Finding 1](#))

Reportable Condition:

DNR had not fully implemented an effective project management process over its capital outlay projects of State recreational watercraft access sites and harbors or its grants awarded to local communities to assist with local infrastructure projects. A comprehensive list of projects, including total project costs and standardized records retention, would help DNR ensure that its State and local waterways projects were properly approved; identified by

need; and completed within defined scope, quality, time, and cost constraints. (Finding 2)

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Audit Objective:

To assess the effectiveness of DNR's efforts to monitor the construction and maintenance of recreational watercraft access and harbor development projects.

Audit Conclusion:

We concluded that DNR was moderately effective in its efforts to monitor the construction and maintenance of recreational watercraft access and harbor development projects. We noted two reportable conditions (Findings 3 and 4).

Reportable Conditions:

DNR did not conduct timely inspections of local waterways recreational watercraft access sites and harbors to ensure that site operators were in compliance with contract requirements. Also, DNR did not maintain an accurate and complete listing of either the inspections due or the inspection results. Without timely inspections, DNR cannot ensure that recreational watercraft facilities and harbors are appropriate for public use and properly maintained as required by the contract. Poorly maintained recreational watercraft access sites and harbors may lead to the injury of recreational boaters, the injury of site and harbor employees, the shortening of site and harbor life spans, and a negative public image for DNR. (Finding 3)

DNR had not implemented a process to record all complaints received and track their resolution. Also, DNR did not place e-comment in a location on its Web site that is easily accessible or provide a link to e-comment within the DNR Facebook and Twitter pages. Recording and tracking complaints could help DNR ensure proper resolution of complaints,

evaluate the effectiveness and efficiency of its staff, monitor its recreational watercraft access and harbor development sites, and identify the need for capital outlay improvements. (Finding 4)

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Audit Objective:

To assess the effectiveness and efficiency of DNR's efforts to administer the restricted funds for recreational watercraft access and harbor development activities.

Audit Conclusion:

We concluded that DNR was effective and efficient in its efforts to administer the restricted funds for recreational watercraft access and harbor development activities. However, we noted one reportable condition (Finding 5).

Reportable Condition:

DNR had not implemented effective controls to ensure that payroll costs were accurately allocated to the restricted funds for recreational watercraft access and harbor development activities. This initially resulted in estimated overcharges to the waterways account and a reduction of funds available for State and local waterways projects of approximately \$291,000. (Finding 5)

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Agency Response:

Our audit report contains 5 findings and 9 corresponding recommendations. DNR's preliminary responses indicate that it agrees with 7 recommendations and disagrees with 2 recommendations.

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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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May 13, 2011

Mr. Timothy L. Nichols, Chair
Natural Resources Commission
and
Mr. Rodney A. Stokes, Director
Department of Natural Resources
Stevens T. Mason Building
Lansing, Michigan

Dear Mr. Nichols and Mr. Stokes:

This is our report on the performance audit of the Recreational Watercraft Access and Harbor Development Activities, Department of Natural Resources.

This report contains our report summary; description of agency; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a plan to address the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

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

Auditor General

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Description of Agency

The Department of Natural Resources* (DNR) is responsible for the acquisition, construction, and operation of the infrastructure needed to support recreational watercraft access and harbor development activities. In addition, DNR awards grants to local units of government and public colleges and universities to acquire and develop harbors of refuge and public recreational watercraft access sites. DNR reviews, prioritizes, and selects projects for funding that local communities and State district planners submit. DNR divisions, in addition to other State departments, monitor the progress of approved and funded projects.

The Michigan Legislature initiated the Michigan State Waterways Commission in 1947. The Commission consists of seven members appointed by the Governor with the advice and consent of the Senate. The Commission works in an advisory capacity to DNR to provide safe public access to the Great Lakes and inland waters of the State of Michigan.

Michigan boasts over 11,000 inland lakes and 3,000 miles of freshwater shoreline. The State of Michigan owns or operates 17 of the 92 harbors and over 1,000 recreational watercraft access sites in the State. Michigan ranks third in the nation in the number of registered watercraft with 931,000 registered. Recreational boating contributes \$2 billion to Michigan's economy annually.

In November 2006, Michigan voters approved a constitutional amendment creating the Michigan Conservation and Recreation Legacy Fund and established the waterways account within the Fund. Section 324.2035 of the *Michigan Compiled Laws* states that all money in the Michigan State Waterways Fund and the Michigan Harbor Development Fund (both created in part 781, Act 451, P.A. 1994) and the Marine Safety Fund (created in part 801, Act 451, P.A. 1994) was to be transferred to the waterways account. The activities administered under part 801 were not included within the scope of this audit.

* See glossary at end of report for definition.

The waterways account supports DNR's recreational watercraft access and harbor development activities and administration. The waterways account receives watercraft registration fees and a portion of gasoline taxes, fees charged for the moorage of watercraft at State-operated mooring facilities, fees charged from State-operated public boating access sites, and other revenue authorized by law.

The majority of the staff who charge their time to the waterways account work within the Parks and Recreation Division. There are nine operations service centers* and 90 unit offices* throughout the State. The DNR Office of Land and Facilities assists with engineering and construction projects and facilities administration. The Department of Technology, Management & Budget assists DNR by bidding out large construction projects.

The waterways account received \$22.6 million in revenue and transfers in fiscal year 2008-09 and had expenditures and transfers of \$31.0 million in restricted funds for recreational watercraft access and harbor development activities. The waterways account had a fund balance of \$27.5 million, of which \$24.3 million was obligated to future projects for activities restricted to recreational watercraft access and harbor development. In fiscal year 2002-03, Act 746, P.A. 2002, required the transfer of \$7.8 million from the Michigan State Waterways Fund (now accounted for within the waterways account) to the General Fund. The Act states that, in the future, the General Fund is to provide reimbursement. However, unless the reimbursement is established in law, the intent of one legislature cannot bind future legislative actions. As of September 30, 2009, this reimbursement had not occurred.

* See glossary at end of report for definition.

Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

Audit Objectives

The Department of Natural Resources (DNR) and the Department of Environmental Quality were abolished by Executive Order No. 2009-45 and combined and renamed the Department of Natural Resources and Environment effective January 17, 2010. The Department of Natural Resources and Environment was abolished by Executive Order No. 2011-1 and again split into two separate departments, the Department of Natural Resources and the Department of Environmental Quality, effective March 13, 2011. Our audit objectives were developed based on DNR operations of recreational watercraft access and harbor development activities. Our audit recommendations are directed to DNR as it will be responsible for corrective action.

Our performance audit* of the Recreational Watercraft Access and Harbor Development Activities, Department of Natural Resources, had the following objectives:

1. To assess the effectiveness* of DNR's process for identifying and funding recreational watercraft access and harbor development projects.
2. To assess the effectiveness of DNR's efforts to monitor the construction and maintenance of recreational watercraft access and harbor development projects.
3. To assess the effectiveness and efficiency* of DNR's efforts to administer the restricted funds for recreational watercraft access and harbor development activities.

Audit Scope

Our audit scope was to examine the program and other records of the Department of Natural Resources' recreational watercraft access and harbor development activities. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our

* See glossary at end of report for definition.

audit objectives. Our audit procedures were performed primarily from May 2007 through October 2007. However, because of a lack of available resources, we reallocated staff to other audits, which required the updating of our audit procedures from May 2010 through November 2010. Our audit procedures generally covered the period October 1, 2004 through March 31, 2010.

Our audit scope did not include marine law enforcement and education supported by the Marine Safety Fund.

Audit Methodology

We conducted a preliminary review of DNR's recreational watercraft access and harbor development activities to gain an understanding of its operations for waterways management in order to plan our audit. We interviewed DNR staff and reviewed applicable statutes, laws, appropriations acts, rules, policies, procedures, and meeting minutes of the Michigan State Waterways Commission. We visited two DNR operations service centers to gain an understanding of, observe, and analyze their operations. We analyzed expenditures, capital outlay project files, and the inspection and complaint processes.

To accomplish our first objective, we obtained an understanding of the process for submitting, evaluating, and selecting projects to receive funding. We compiled capital outlay expenditures for recreational watercraft access and harbor development activities for the period October 2005 through March 2010 and selected State and local projects for further review. We reviewed DNR's project files to assess the request, evaluation, and selection process of these projects. We analyzed DNR's spending of capital outlay appropriations.

To accomplish our second objective, we met with DNR central staff, a DNR district supervisor, and a DNR unit supervisor to obtain an understanding of how complaints were logged and how the responses were handled. We selected a sample of complaints received by the Parks and Recreation Division to determine the types of complaints that were received and how they were resolved. We obtained and reviewed inspection reports of State and local waterways project* sites. We identified local waterways project sites that received poor inspections or did not have inspections to determine if they had received funding. We also reviewed project files for evidence of project monitoring.

* See glossary at end of report for definition.

To accomplish our third objective, we analytically reviewed expenditures charged to the restricted funds for recreational watercraft access and harbor development activities. We compared the number of full-time equated employees from year to year. We performed a year-to-year analysis on the employees and civil service classifications and employee type (i.e., full-time, part-time, limited-term worker, or seasonal) charged to the funds. In addition, we reviewed DNR's processes for allocating costs to the funds to determine if DNR's allocation methodologies were reasonable.

When selecting activities or programs for audit, we use an approach based on assessment of risk and opportunity for improvement. Accordingly, we focus our audit efforts on activities or programs having the greatest probability for needing improvement as identified through a preliminary review. Our limited audit resources are used, by design, to identify where and how improvements can be made. Consequently, we prepare our performance audit reports on an exception basis.

Agency Responses and Prior Audit Follow-Up

Our audit report includes 5 findings and 9 corresponding recommendations. DNR's preliminary responses indicate that it agrees with 7 recommendations and disagrees with 2 recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require DNR to develop a plan to address the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. The Office of Internal Audit Services is required to review the plan within 30 days of receipt and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We released our prior performance audit of the Parks and Recreation Bureau, Department of Natural Resources (75-115-03), in September 2004. Within the scope of this audit, we followed up the one prior audit recommendation. We repeated the recommendation in this audit report (Finding 3).

COMMENTS, FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

IDENTIFYING AND FUNDING PROJECTS

COMMENT

Audit Objective: To assess the effectiveness of the Department of Natural Resources' (DNR's) process for identifying and funding recreational watercraft access and harbor development projects.

Audit Conclusion: We concluded that DNR's process was effective for identifying and was not effective for funding recreational watercraft access and harbor development projects. Our assessment disclosed one material condition*. DNR did not comply with State law when expending State restricted funding for State and local waterways projects. In addition, DNR did not comply with State law to seek legislative approval for increased budgetary authorizations when local waterways project costs exceeded amounts identified and authorized in its capital outlay appropriations act. Further, DNR did not ensure that only reasonable costs were reimbursed for a local waterways project. (Finding 1)

Our assessment also disclosed one reportable condition* related to project management (Finding 2).

FINDING

1. Capital Outlay Appropriations

DNR did not comply with State law when expending State restricted funding for State and local waterways projects. In addition, DNR did not comply with State law to seek legislative approval for increased budgetary authorizations when local waterways project costs exceeded amounts identified and authorized in its capital outlay appropriations act. Further, DNR did not ensure that only reasonable costs were reimbursed for a local waterways project. As a result, DNR spent \$4,024,946 of State restricted funds for recreational watercraft access and harbor development project costs without authorization from the Legislature and reimbursed a local community for \$17,800 in questionable costs.

* See glossary at end of report for definition.

Our review of DNR's expenditure of capital outlay appropriations during our audit period disclosed:

- a. DNR used State restricted funding in place of local and federal funding and did not maintain funding proportions specified and authorized in its capital outlay appropriations act without obtaining legislative approval.

The *Michigan Compiled Laws* contain requirements for spending capital outlay appropriations for State and local waterways projects as authorized by the Legislature in annual budget acts. These requirements include the spending of multiple sources of financing for a waterways project in the same proportion as appropriated and the prohibition of revising or altering spending of a waterways project without legislative approval. In addition, capital outlay appropriations acts contain specific requirements for spending.

We determined that DNR did not comply with these requirements in the following projects for recreational watercraft State and local harbors:

(1) Project #1

Funding Appropriated	Share Appropriated	Amount Appropriated	Proportion Appropriated	Amount Spent	Proportion Spent
Michigan State Waterways Fund	State share	\$3,684,700	77%	\$3,011,233	82%
U.S. Department of the Interior	Federal share	1,082,000	23%	0	0%
U.S. Coast Guard, Department of Homeland Security	None	0	0%	673,467	18%
Total		<u>\$4,766,700</u>		<u>\$3,684,700</u>	

In Act 116, P.A. 1997, the Legislature appropriated \$4,766,700 in funding for a State harbor and dock project, of which \$3,684,700 was to be funded by the Michigan State Waterways Fund and \$1,082,000 with Dingell-Johnson funds from the U.S. Fish and Wildlife Service, U.S. Department of the Interior. DNR did not seek the federal award from the U.S. Department of the Interior and did not seek legislative approval to spend funds in a different proportion and from a different funding source than appropriated.

DNR initially charged total project costs of \$3,684,700 to the Michigan State Waterways Fund and later transferred and charged \$673,467 to the U.S. Coast Guard, Department of Homeland Security, by means of its 2007 lump sum infrastructure capital outlay appropriations (Finding 1.b.). Because DNR did not seek the federal award, it should not have proceeded with the project until a revised capital outlay appropriation was granted. As a result, DNR spent \$3,011,233 in State restricted funds that was not authorized.

Section 18.1249 of the *Michigan Compiled Laws* requires that if matching revenues for a capital outlay project are received in an amount less than the appropriations contained in a budget act, the State portion of the appropriation shall be reduced in proportion to the amount of matching revenue received. In addition, Section 18.1246 of the *Michigan Compiled Laws* states that the authorized costs of projects shall only be revised by specific reference in a budget act, by concurrent resolution adopted by both houses of the Legislature, or inferred by the total amount of any appropriations made to complete plans and construction.

(2) Project #2

Funding Appropriated	Share Appropriated	Amount Appropriated	Proportion Appropriated	Amount Spent	Proportion Spent
Michigan State Waterways Fund/local community funds	State/local share	\$ 275,000	25%*	\$819,910 (State share) 0 (local share)	84% 0%
U.S. Department of the Interior	Federal share	825,000	75%	161,090	16%
Total		<u>\$1,100,000</u>		<u>\$981,000</u>	

* The appropriations act did not specify how the 25% State/local share would be split.

In Act 45, P.A. 2001, the Legislature authorized DNR to enter into a \$1.1 million agreement (also known as grant-in-aid) with a local community for improvements to the local community's harbor. The Act provided for the Michigan State Waterways Fund and the local community to share in the project costs of \$275,000, while federal funds would fund the remaining \$825,000 in project costs. The appropriation did not specify the

percentage of the total project cost shared between the Michigan State Waterways Fund and the local community. In May 2003, DNR executed the agreement with the local community. However, the agreement stipulated that DNR would provide 100% of the total project costs. DNR charged expenditures of \$819,910 to the Michigan State Waterways Fund to cover 84% (instead of 25%) of the total project costs. DNR did not reduce the share of State restricted funds in proportion to the amount of federal revenue received or seek legislative approval to adjust or alter the proportions authorized in the appropriations acts. DNR should not have proceeded with this project and spent State restricted funds without legislative approval if federal and local funds were not available. As a result, DNR spent \$766,213 in State restricted funds that was not authorized.

Section 18.1248(11) of the *Michigan Compiled Laws* requires that a grant or grant-in-aid appropriated for the demolition, acquisition, construction, repair, or maintenance of capital assets shall not be reduced, adjusted, delayed, impounded, lapsed, or otherwise altered for any purpose without legislative approval. Also, Section 18.1249 of the *Michigan Compiled Laws* requires that if matching revenues for a capital outlay project are received in an amount less than the appropriations contained in a budget act, the State portion of the appropriation shall be reduced in proportion to the amount of matching revenue received.

- b. DNR adjusted the appropriated match requirement and amount of State restricted funding for a local project without obtaining legislative approval. This resulted in DNR exceeding the appropriated amount by \$247,500 computed as follows:

Amount DNR spent (73%)	\$795,000
DNR share (50%) based on appropriations act	547,500
Unauthorized amount spent	\$247,500

In Act 193, P.A. 2003, the Legislature authorized DNR to enter into a \$600,000 agreement with a local community for harbor improvements. The Legislature approved the total project improvement cost at \$1.2 million with \$600,000 in funding from the Michigan State Waterways Fund and \$600,000 in funding

from the local community. In February 2004, DNR executed an \$800,000 agreement with the local community, specifying a local match of \$400,000. Further, DNR executed an agreement addendum in November 2005 that increased the total agreement to \$900,000, but increased the State's match to \$600,000, while reducing the local community's match to \$300,000 at the advice of the Michigan State Waterways Commission. This increased the Michigan State Waterways Fund share of the project improvement costs from 50% to 67%. DNR indicated that it did not request legislative approval for the change because it did not exceed the \$600,000 authorized in the appropriations act. In January 2007, DNR executed a second agreement addendum that provided for additional State funding of approximately \$186,000 without any match by the local community. DNR did not request from the Legislature an additional appropriation for the second addendum, but instead used its lump sum appropriation* to fund the increased project costs. In addition, DNR charged engineering monitoring costs of approximately \$9,000 to an engineering lump sum appropriation and not directly to the project's line-item appropriation to be shared equally between the State and the local community. DNR did not seek the approval of the Legislature for the increase in the level of State restricted funding of \$247,500.

Section 18.1248(11) of the *Michigan Compiled Laws* requires that a grant or grant-in-aid appropriated for the demolition, acquisition, construction, repair, or maintenance of capital assets shall not be reduced, adjusted, delayed, impounded, lapsed, or otherwise altered for any purpose without legislative approval. In addition, Section 18.1395(2) of the *Michigan Compiled Laws* requires that spending of State matching money in an appropriation shall be maintained in the proportion appropriated. Further, Section 1001, Act 193, P.A. 2003, states that an allocation of funds shall not exceed the State portion as listed with each project description.

When additional expenditures for a local line-item appropriated waterways project are charged to the lump sum appropriation, the actual costs of the line-item projects are lost and are not clearly reported to the Legislature or other interested parties (Finding 2). If DNR obtained approval and moved

* See glossary at end of report for definition.

authorization from the lump sum appropriation to the line-item appropriation, the total costs of the line-item projects could be more clearly identified and monitored.

- c. DNR did not ensure that all local project costs were necessary and reasonable for the project.

We identified questionable project costs for building improvements of a local community harbor of approximately \$4,200 for per diem payments, including a bonus for recognition of exceptional efforts and services in constructing the building, to a harbor commissioner who DNR informed us acted as a liaison for the project. Also, we noted questionable salary reimbursement for harbor commission employees totaling approximately \$13,600, including a \$1,000 bonus for each of the three harbor commission employees which the Michigan State Waterways Fund reimbursed at 100%.

RECOMMENDATIONS

We recommend that DNR comply with State law when expending State restricted funding for State and local waterways projects.

We also recommend that DNR comply with State law to seek legislative approval for increased budgetary authorizations when local waterways project costs exceed amounts identified and authorized in its capital outlay appropriations act.

We further recommend that DNR ensure that only reasonable costs are reimbursed for local waterways projects.

AGENCY PRELIMINARY RESPONSE

Part a.(1) Project #1 - DNR agrees with the finding.

DNR informed us that, based on past practices of using lump sums and using only portions of a given appropriated line item, it acted in good faith to accomplish this project.

DNR also informed us that it mistakenly assumed that legislative approval was for the total project cost as opposed to the funding breakdown. Changes in the funding sources occurred once DNR

learned that certain large scope items would have created critical boater restrictions if federal funds had been applied. The use of waterways funding did not pose the same restrictions. DNR indicated that it did use appropriated lump sum dollars in order to keep the project progressing. DNR also indicated that the project had been delayed multiple years and the improvements needed were critical and needed to be addressed promptly.

Part a.(2) Project #2 - DNR agrees with the finding.

DNR informed us that circumstances regarding the change in funding were due to the urgency of the project. DNR indicated that the project incorporated a commercial ferry dock that provided transportation for residents to and from the island and was a critical and sole source of transportation for island residents. Unfortunately, the Sport Fish Restoration federal funds that were initially allocated would not fund a commercial use of the facility. DNR also informed us that on July 3, 2003, collapse of the existing dock at the facility threw eight people in the water. None were seriously injured, but this incident confirmed DNR's earlier assessment of urgency for repairs to the facility that prompted the accelerated funding change.

Part b. DNR agrees with the finding.

DNR informed us that it should not have followed the recommendations of the Michigan State Waterways Commission to increase the Michigan State Waterways Fund match amount without first seeking legislative approval.

Part c. DNR disagrees with the finding.

DNR indicated that "questionable reimbursements" for per diem and "bonus for recognition and services" are allowable expenses per Section 324.78110 of the *Michigan Compiled Laws*, which states:

Money in the waterways account shall be used only for the following:

- (a) The construction, operation, and maintenance of . . . recreational boating facilities . . .
- (c) For grants to local units of government . . . to acquire and develop harbors of refuge and public boating access sites under section 78115.

The invoice submitted by the community included use of the term "bonuses" for three individuals. The community's invoice attachment describes these bonuses as "Board action authorizing a one time bonus pay of \$1000 each, for payment of uncompensated time and recognition of exceptional efforts and services before, during and after the construction period . . . "

DNR informed us that the three individuals were acting as (harbor) project coordinators for the community. This reimbursement was payment for their services, rendered on behalf of the community, to assist with the redevelopment project at the harbor. Two of the individuals are employees of the community whose work on the harbor project needed to be paid for separately from their community wages. The third individual was not a community employee, hence the per diem for expenses and payment for services rendered, which was consistent with the payments made to the community employees.

FINDING

2. Project Management

DNR had not fully implemented an effective project management process over its capital outlay projects of State recreational watercraft access sites and harbors or its grants awarded to local communities to assist with local infrastructure projects. A comprehensive list of projects, including total project costs and standardized

records retention, would help DNR ensure that its State and local waterways projects were properly approved; identified by need; and completed within defined scope, quality, time, and cost constraints.

Project management includes planning, monitoring, and reporting of ongoing activities, cost/schedule tracking, administrative support, and grants to local communities.

Our review of DNR's project management over State and local waterways projects disclosed inefficiencies and areas for improvement:

- a. DNR did not maintain a comprehensive list of in-process and completed State and local waterways projects and total project costs. Such information could be used by DNR to assess its effectiveness and efficiency in administering its projects and can provide valuable historical and cost information to DNR management, the Michigan State Waterways Commission, the State Budget Office, and the Joint Capital Outlay Subcommittee. Cost information would also help DNR determine areas of inefficiencies during engineering and construction and possibly identify contractors who continually have cost overages.

DNR maintained project costs by appropriation number for those projects that received specific line-item appropriations only; however, DNR inappropriately provided project funds from multiple line-item and lump sum appropriations (Finding 1). Also, the Waterways Planning Unit, the Office of Land and Facilities, and the Program Services Section each assign their own identifying numbers to projects assigned to their locations. To provide for a comprehensive listing of in-process and completed State and local waterways projects and total project costs, DNR should assign one unique identifier to a project that all units and divisions share/use.

After we informed DNR of this in November 2007, DNR created unique project numbers. However, all units and divisions did not share/use the unique project numbers in their waterways project activities. Also, DNR did not use the unique project numbers to monitor project status or project costs. In addition, DNR informed us in November 2007 that it received approval from the Department of Technology, Management & Budget to develop a system to

help it better monitor the status of its projects, but it had not started development because of other priorities.

- b. DNR did not have standardized records retention for the information required to identify and document its selection of local waterways projects. Standardized record retention for project files establishes required documents, minimizes missing documents, avoids duplication of effort, increases accountability, and facilitates efficiencies when locating project information.

Local communities submit local waterways applications to DNR on an annual basis. The Waterways Planning Unit is responsible for reviewing each application, determining if the project meets local waterways project eligibility requirements, and making recommendations to management on which local waterways projects to fund from the restricted funds for recreational watercraft access and harbor development activities.

Our review disclosed that 3 (15%) of 20 local waterways project files reviewed did not contain a grant application. In addition, we noted that while all projects included documentation of community need, we could not determine if DNR selected the projects with the greatest community need. DNR indicated that many factors are used when selecting local waterways projects to fund, such as if the community has matching funds, if the project is ready for construction, and if funding is available from the restricted funds for recreational watercraft access and harbor development activities. However, our review of the project files disclosed that this additional information is not maintained within the files.

DNR policies and procedures did not include standardized record retention schedules specific to projects funded by the restricted funds for recreational watercraft access and harbor development activities. We located a records management policy within the Parks and Recreation Division policies; however, this policy did not identify specific document retention for local waterways projects.

RECOMMENDATION

We recommend that DNR fully implement an effective project management process over its capital outlay projects of State recreational watercraft access sites

and harbors and its grants awarded to local communities to assist with local infrastructure projects.

AGENCY PRELIMINARY RESPONSE

Part a. DNR agrees with the finding.

DNR informed us that it agrees that having the ability to link projects with other state databases/entities is extremely desirable and would appreciate any and all technical assistance in gaining the ability to use a unique identifier number to be shared by all units and divisions. DNR indicated that for several years now, it has had an outstanding technology request (with the former Department of Information and Technology and currently with the Department of Technology, Management & Budget) for the development of a capital outlay database. To date, this request remains unmet but would certainly reduce duplicated efforts and more effectively share information.

DNR also indicated that there were several lists for projects that had been kept separately for different purposes. There is not a link to all lists for a single "comprehensive" list that incorporates all information from project type to financial status. DNR informed us that since the time frame studied during the audit, it has been systematically converting lists into linkable databases that will ultimately provide an opportunity to have all information on one comprehensive list.

DNR further indicated that its Five-Year Capital Outlay Project List for Waterways, developed in 2006, comprehensively identifies capital outlay needs for the State facilities and grant-in-aid facilities over a five-year period. This resource is updated annually and assists DNR in determining its highest priority needs.

Part b. DNR agrees with the finding.

DNR indicated that there is no standardized records retention for grant-in-aid projects. No policy exists that covers the grant-in-aid records retention.

MONITORING THE CONSTRUCTION AND MAINTENANCE OF PROJECTS

COMMENT

Audit Objective: To assess the effectiveness of DNR's efforts to monitor the construction and maintenance of recreational watercraft access and harbor development projects.

Audit Conclusion: We concluded that DNR was moderately effective in its efforts to monitor the construction and maintenance of recreational watercraft access and harbor development projects. Our assessment disclosed reportable conditions related to site inspections (Finding 3) and complaint tracking and resolution (Finding 4).

FINDING

3. Site Inspections

DNR did not conduct timely inspections of local waterways recreational watercraft access sites and harbors to ensure that site operators were in compliance with contract requirements. Also, DNR did not maintain an accurate and complete listing of either the inspections due or the inspection results. Without timely inspections, DNR cannot ensure that recreational watercraft facilities and harbors are appropriate for public use and properly maintained as required by the contract. Poorly maintained recreational watercraft access sites and harbors may lead to the injury of recreational boaters, the injury of site and harbor employees, the shortening of site and harbor life spans, and a negative public image for DNR.

Since the creation of the Michigan State Waterways Commission in 1947, DNR has entered into agreements with local communities to construct, enlarge, and renovate 256 recreational watercraft access sites and harbors. DNR policy requires inspections of local recreational watercraft access sites and harbors at intervals based on the previous inspection rating for that facility. For example, inspections are required at least every three years for sites that received a good inspection rating, every two years for sites that received a fair inspection rating, and every year for sites that received a poor inspection rating.

DNR central office is responsible for overseeing and informing DNR operations service center staff of the inspections that are required each year. Our review of

DNR's inspections of local recreational watercraft access sites and harbors disclosed:

- a. DNR could not determine which facilities needed an inspection performed because DNR did not ensure that its primary inspection list was properly updated. Without regular inspections, DNR lacks assurance that local communities are properly maintaining recreational watercraft access sites and harbors.

DNR central office maintained the inspection list and distributed the list annually to the operations service centers to identify inspections due for the year. If an inspection was due in a particular year and not completed during that year, central office did not carry forward that inspection as being due in the following year(s). We also noted 70 instances from 2004 through 2009 in which inspections were completed by the operations service centers but not forwarded to central office or were forwarded but not entered on the inspection list. We conducted a reconciliation of the list to determine overdue inspections and noted that inspections were not completed in the year(s) due as follows:

Calendar Year	Number of Inspections	
	Required To Be Completed	Not Completed
2009	140	80 (57%)
2008	143	83 (58%)
2007	208	87 (42%)
2006	106	28 (26%)
2005	130	22 (17%)
2004	57	49 (86%)

During fiscal year 2008-09, DNR reassessed and updated its inspection policy effective for the 2010 inspections. DNR added to the policy that inspections would no longer be required after the facility exceeded the life of facilities, which is defined as 20 years. DNR informed us that this will also greatly reduce the total number of inspections that DNR staff will be required to perform each year and will allow DNR to assess the conditions of the facility based on upkeep versus deterioration due to normal wear and tear that comes with age. However, inspections based on upkeep requirements rather than

the facility condition may not identify areas of risk to the safety of the users of the facility.

- b. DNR did not conduct underwater inspections at applicable local waterways sites. In 2004, DNR recognized a need to investigate and evaluate the conditions of structures beneath the water surface and, accordingly, added underwater inspections to its inspection policy. However, DNR reevaluated the need to perform underwater inspections and removed the requirement in 2008. DNR informed us that it did not have qualified dive staff with a background in engineering who could identify potential issues related to structural damage; therefore, DNR removed the requirement from the policy. The first local harbors were built in 1952. Without underwater inspections, DNR cannot identify underwater structural defects and deterioration and identify conditions contributing to rates of deterioration that may result in potential safety issues and unsafe conditions.
- c. DNR did not perform inspections of local waterways sites prior to approving additional grant funds for local communities to improve the site.

During our audit period, DNR approved 177 projects for 109 sites to receive funding from the restricted funds for recreational watercraft access and harbor development activities. Our review of 70 sites disclosed that DNR did not conduct 25 (36%) required inspections prior to approving \$10.5 million in funds for improvements. This included 6 (9%) sites that received a poor inspection rating prior to being approved to receive \$2.4 million in funds. These inspections were overdue an average of two years when funds were awarded. DNR informed us that a poor inspection does not necessarily reflect poor management; it could relate to the age of the facility and normal wear and tear.

Without performing the inspections or ensuring that local communities corrected identified deficiencies at their local waterways sites, DNR did not have assurance that additional grant funds would be effectively and efficiently administered by the community.

We reported this issue in our performance audit of the Parks and Recreation Bureau (75-115-03) issued in September 2004. DNR agreed with our

recommendation and informed us that it revised its inspection policy to include reporting language to ensure that its district office staff conducted their required inspections and reported inspection results for appropriate action as needed. In addition, DNR informed us that limited personnel resources are the reason for the noncompliance with its inspection policy. DNR indicated that it plans to review the length of time between inspections and that it may revise the policy. DNR informed us that there are no federal requirements or industry practice inspection time frame standards and it developed the time frames for the current policy. We believe that DNR should determine the optimal time frames for inspections in order to ensure safety and not change its current inspection policy because of a lack of resources.

RECOMMENDATIONS

WE AGAIN RECOMMEND THAT DNR CONDUCT TIMELY INSPECTIONS OF LOCAL WATERWAYS RECREATIONAL WATERCRAFT ACCESS SITES AND HARBORS TO ENSURE THAT SITE OPERATORS ARE IN COMPLIANCE WITH CONTRACT REQUIREMENTS.

We also recommend that DNR maintain an accurate and complete listing of both the inspections due and the inspection results.

AGENCY PRELIMINARY RESPONSE

Part a. DNR agrees with the finding.

DNR informed us that as of January 2011, the DNR Parks and Recreation Division has implemented a new position within the Resource Management Section to assist with risk management and safety inspections. Part of those duties will include the coordination of the grant-in-aid waterways inspections. This individual will be responsible for assigning inspections to appropriate field staff based on policy. The individual will also facilitate any potential follow-up to determine if identified issues were remedied by the community. DNR indicated that between adding the life expectancy to the terms of the agreements and having a dedicated individual to coordinate inspections, DNR anticipates 100% completion of annual inspection reports.

Part b. DNR agrees with the finding.

DNR indicated that inspections are a courtesy and not required by statute or agreement. DNR informed us that underwater inspections were removed as part of the routine process because staff determined that these types of inspections were beyond typical staff expertise. The communities are ultimately responsible for maintaining their facilities and should do underwater inspections as part of this accountability. DNR indicated that it has coordinated underwater inspections in previous years but not as a set, routine policy.

Part c. DNR agrees with the finding.

DNR informed us that the Parks and Recreation Division did not do follow-up inspections prior to the determination of whether past operational standards warranted approving the grant because it did not have an established procedure in policy that required staff to do follow-up inspections. DNR informed us that it is modifying its policy to coordinate with the planning unit for handling any nonroutine inspections as part of an emergency, follow-up for potential grant award, or compliance with findings from previous inspections.

FINDING

4. Complaint Tracking and Resolution

DNR had not implemented a process to record all complaints received and track their resolution. Also, DNR did not place e-comment* in a location on its Web site that is easily accessible or provide a link to e-comment within the DNR Facebook and Twitter pages. Recording and tracking complaints could help DNR ensure proper resolution of complaints, evaluate the effectiveness and efficiency of its staff, monitor its recreational watercraft access and harbor development sites, and identify the need for capital outlay improvements.

DNR owns or operates over 1,000 recreational watercraft access sites and 17 harbors. Complaints regarding these access sites and harbors can be received by 90 unit offices, 9 operations service centers, and several DNR central office locations or via e-comment (beginning January 2008). DNR utilizes several

* See glossary at end of report for definition.

different means to collect data; however, DNR does not summarize that data in a way that allows DNR to assess the quality and performance of DNR's facilities and operations. Sound business practices would include a method to monitor complaints from all locations to assess the quality and performance of DNR facilities and operations.

Our review of DNR's complaint process disclosed that DNR's Parks and Recreation Division director's office is the only office location to record and track the resolution of complaints. In addition, DNR central office locations also receive complaints; however, these complaints are generally resolved by the person who receives them, which could result in an inefficiency from duplication of effort if the complaint is sent to more than one person. Further, our review of two DNR operations service centers disclosed that neither office maintained a log of complaints.

Data and comments received via e-comment are periodically summarized and made available to DNR staff; however, DNR did not assign responsibility to an individual or a division for review and follow-up. E-comment is a relatively new process of collecting information from users via the Internet; however, only approximately 450 users have responded via e-comment between January 2008 and December 2009. We searched the DNR Web site and found it cumbersome to locate the link where an individual could utilize this resource to evaluate his or her recent visit to a boating access site. We also noted that DNR did not have a link to e-comment within the DNR Facebook and Twitter pages.

RECOMMENDATIONS

We recommend that DNR implement a process to record all complaints received and track their resolution.

We also recommend that DNR place e-comment in a location on its Web site that is easily accessible and provide a link to e-comment within the DNR Facebook and Twitter pages.

AGENCY PRELIMINARY RESPONSE

DNR agrees with the finding that DNR did not track all complaints but disagrees with the first recommendation.

DNR informed us that the logistics of implementing a process to record all complaints when they occur would be an inefficient use of time, especially when it may take longer to document and explain the resolution of a complaint rather than simply addressing it. DNR indicated that most complaints are handled at the field level and do not require a hierarchical review process, as do some of the letters entered through DNR's log letter system.

DNR indicated that it has other efforts to handle complaints. DNR uses written comment cards, which are scanned and sent back to local units for review. DNR also has a Law Violations database, which allows field staff to quantify complaints, warnings, and tickets issued in violation of administrative rules or law. DNR informed us that it believes that current efforts to document and handle complaints are being adequately addressed, although there is a need to tie all conduits together. DNR informed us that it agrees that its e-comment process is not easily recognized and could be implemented through the current Facebook and Twitter pages.

OFFICE OF THE AUDITOR GENERAL EPILOGUE

We believe that complaint information is a viable and valuable tool for DNR to assess the quality and performance of its recreational watercraft access and harbor facilities and operations, particularly given the decentralized nature of the operations. DNR has multiple methods in which to collect complaint information, but no mechanism to compile, review, and evaluate the information in a comprehensive environment. DNR's ability to review and evaluate complaint information in a comprehensive environment could provide indications of common construction or maintenance problems or needs. Some of DNR's methods of collecting complaint information seem to result in immediate action, but other methods do not have assigned staff to ensure that possible areas of concern are addressed as they occur.

We agree that sometimes DNR scanned paper comment cards and shared them with the local units for review. However, at the time of our review, DNR had not scanned any comment cards for the preceding six months. In addition, DNR did not share with us during our fieldwork the existence of a Law Violations database; therefore, we were unable to evaluate that monitoring mechanism.

ADMINISTERING THE RESTRICTED FUNDS

COMMENT

Audit Objective: To assess the effectiveness and efficiency of DNR's efforts to administer the restricted funds for recreational watercraft access and harbor development activities.

Audit Conclusion: We concluded that DNR was effective and efficient in its efforts to administer the restricted funds for recreational watercraft access and harbor development activities. However, our audit disclosed a reportable condition related to payroll cost distribution (Finding 5).

FINDING

5. Payroll Cost Distribution

DNR had not implemented effective controls to ensure that payroll costs were accurately allocated to the restricted funds for recreational watercraft access and harbor development activities. This initially resulted in estimated overcharges to the waterways account and a reduction of funds available for State and local waterways projects of approximately \$291,000.

Parts 781 and 791, Act 451, P.A. 1994, as amended, allow for the waterways account to provide for the improvement of lake harbors and inland waterways; the construction, operation, and maintenance of recreational boating facilities; property acquisition; and administration.

We identified nine employees who charged time to the waterways account for recreational watercraft access and harbor development activities even though they performed major maintenance and construction activities for State parks as well as recreational boating access sites and harbors. DNR field staff document their daily activity on a daily work report form summarizing activity for each day and submit that form along with their biweekly time sheet to their supervisor. Although the time sheets have a section where staff can record deviations from expected work activities, staff coded all time to the expected work activity.

RECOMMENDATION

We recommend that DNR implement effective controls to ensure that payroll costs are accurately allocated to the restricted funds for recreational watercraft access and harbor development activities.

AGENCY PRELIMINARY RESPONSE

DNR agrees with the finding but not the overcharge amount.

DNR informed us that it believes the correct amount of the overcharge is \$214,529. DNR also informed us that it has transferred the timekeeper duties and approval paths to employees and supervisors who are more familiar with its programs and duties. DNR will also remind the specific supervisor and district manager of their timekeeping responsibilities. DNR also informed us that it will improve central office's role in reviewing, verifying, and validating that all charges are recorded properly.

DNR indicated that it is constantly looking for improvements to its controls not only for payroll cost distribution methods but also for all of its business practices.

GLOSSARY

Glossary of Acronyms and Terms

Department of Natural Resources (DNR)	The Department of Natural Resources and the Department of Environmental Quality were abolished by Executive Order No. 2009-45 and combined and renamed the Department of Natural Resources and Environment effective January 17, 2010. The Department of Natural Resources and Environment was abolished by Executive Order No. 2011-1 and again split into two separate departments, the Department of Natural Resources and the Department of Environmental Quality, effective March 13, 2011.
e-comment	An electronic report card system to assist in tracking customer satisfaction rankings and individual comments for each unit.
effectiveness	Success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical with the minimum amount of resources.
local waterways projects	Grants to local units of government and State colleges or universities to acquire and develop harbors of refuge and public boating access sites. Also known as grants-in-aid (GIA).
lump sum appropriation	An appropriation for a stated lump sum purpose or for a named department or program, which does not specify further the amounts that may be spent on specific projects or types of expenditures.
material condition	A reportable condition that could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.

operations service center	A field office that offers customer service for a regional area as well as a location that houses more than one DNR division.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve program operations, to facilitate decision making by parties responsible for overseeing or initiating corrective action, and to improve public accountability.
reportable condition	A matter that, in the auditor's judgment, falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the objectives of the audit; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.
unit office	A field office or park headquarters that offers customer service and houses staff and equipment to operate parks, recreation areas, and boating programs.

