



# MICHIGAN

OFFICE OF THE AUDITOR GENERAL



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

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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September 26, 2012

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

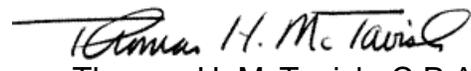
Dear Mr. Nichols and Mr. Creagh:

This is our report on our follow-up of the 1 material condition (Finding 1) and 3 corresponding recommendations reported in the performance audit of the Recreational Watercraft Access and Harbor Development Activities, Department of Natural Resources (DNR). That audit report was issued and distributed in May 2011. Additional copies are available on request or at <<http://www.audgen.michigan.gov>>.

Our follow-up disclosed that DNR had complied with all 3 recommendations.

If you have any questions, please call me or Scott M. Strong, C.P.A., C.I.A., Deputy Auditor General.

Sincerely,

  
Thomas H. McTavish, C.P.A.  
Auditor General



## TABLE OF CONTENTS

### RECREATIONAL WATERCRAFT ACCESS AND HARBOR DEVELOPMENT ACTIVITIES DEPARTMENT OF NATURAL RESOURCES FOLLOW-UP REPORT

	<u>Page</u>
Introduction	4
Purpose of Follow-Up	4
Background	4
Scope	5
Follow-Up Results	
Identifying and Funding Projects	6
1. Capital Outlay Appropriations	6
Glossary of Acronyms and Terms	10

# **RECREATIONAL WATERCRAFT ACCESS AND HARBOR DEVELOPMENT ACTIVITIES DEPARTMENT OF NATURAL RESOURCES FOLLOW-UP REPORT**

## **INTRODUCTION**

This report contains the results of our follow-up of the material condition\* and corresponding recommendations and the agency's preliminary response as reported in our performance audit\* of the Recreational Watercraft Access and Harbor Development Activities, Department of Natural Resources (DNR) (751-0156-10), which was issued and distributed in May 2011. That audit report included 1 material condition (Finding 1) and 4 reportable conditions\* (Findings 2 through 5).

## **PURPOSE OF FOLLOW-UP**

The purpose of this follow-up was to determine whether DNR had taken appropriate corrective measures in response to the 1 material condition and 3 corresponding recommendations.

## **BACKGROUND**

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.

\* See glossary at end of report for definition.

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 and the Natural Resources Commission to provide safe public access to the Great Lakes and inland waters of the State of Michigan.

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. 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.

## **SCOPE**

Our fieldwork was conducted in July and August 2012. We interviewed DNR personnel and reviewed legislation to determine whether there were any changes since our performance audit of the Recreational Watercraft Access and Harbor Development Activities issued in May 2011. We identified DNR's recreational watercraft access and harbor development projects with expenditures incurred during the period October 1, 2010 through June 30, 2012. For those 18 projects, we analyzed the capital outlay appropriation amounts and DNR's spending to determine the status of DNR's compliance with our recommendations for Finding 1. We also tested all of the expenditures that DNR incurred for local waterways projects\* during the period October 1, 2010 through June 30, 2012 to determine whether DNR incurred expenditures for reasonable project costs.

\* See glossary at end of report for definition.

# FOLLOW-UP RESULTS

## IDENTIFYING AND FUNDING PROJECTS

### **RECOMMENDATION AND RESPONSE AS REPORTED IN MAY 2011:**

#### 1. Capital Outlay Appropriations

### **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.

\* See glossary at end of report for definition.

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.

### **FOLLOW-UP CONCLUSION**

We concluded that DNR had complied with the three recommendations. Specifically, our follow-up determined:

1. DNR had complied with State law and did not expend State restricted funding in place of local and federal funding for State and local waterways projects. DNR also maintained funding proportions as authorized in its capital outlay appropriations act (including supplemental appropriations acts) or as revised by approved legislative transfer. DNR increased its diligence in monitoring funding proportions of State and local waterways projects.
2. DNR had complied with State law and obtained legislative approval for increased budgetary authorization when local waterways project costs exceeded amounts identified and authorized in its capital outlay appropriations act. Our follow-up did not identify any total project costs or funding proportions in excess of amounts authorized.

3. DNR had ensured that it reimbursed only reasonable costs for local waterways project expenditures. Our review of all expenditures that DNR incurred during the period October 1, 2010 through June 30, 2012 for 18 local waterways projects did not identify any questionable project costs.

## Glossary of Acronyms and Terms

appropriated lump sum	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.
DNR	Department of Natural 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.
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.
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.





