

PERFORMANCE AUDIT
OF

CASH FUNCTIONS

DEPARTMENT OF NATURAL RESOURCES

November 1998

EXECUTIVE DIGEST

CASH FUNCTIONS

INTRODUCTION This report, issued in November 1998, contains the results of our performance audit* of Cash Functions, Department of Natural Resources (DNR).

AUDIT PURPOSE This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency*.

BACKGROUND DNR receives cash* from a number of different sources. Cash is received through the mail and in person within DNR. Cash is ultimately processed by the cashier's office and deposited with the Department of Treasury. During fiscal year 1996-97, approximately \$53 million was collected centrally in Lansing.

DNR also collects cash at approximately 425 different field sites*. Approximately 145 of these sites serve as field deposit sites* . Some field deposit sites are responsible for making deposits for a number of remote field locations. These field deposit sites deposit cash into a State Treasurer's account at a local bank and fax a copy of the deposit ticket to the cashier's office in Lansing for entry

* See glossary on page 25 for definition.

into the State's accounting system. During fiscal year 1996-97, approximately \$43 million was deposited locally by field deposit sites and processed by the cashier's office in Lansing.

DNR administers several conservation and recreation related special revenue funds, a capital projects fund, and an enterprise fund. The enabling legislation for the five special revenue funds requires that a portion of each fund be retained for permanent investment. As of September 30, 1997, the amounts held for permanent investments for the five funds totaled approximately \$263.1 million.

**AUDIT OBJECTIVE,
CONCLUSION, AND
NOTEWORTHY
ACCOMPLISHMENTS**

Audit Objective: To assess the effectiveness and efficiency of DNR's cash handling processes and special revenue fund investments.

Conclusion: DNR's cash handling processes and investment of special revenue funds were generally effective and efficient. However, our assessment disclosed reportable conditions* relating to funds held as permanent investments, cash received by mail, auctions of tax reverted land*, fee enforcement, fee safes* , mail logs* , restrictive endorsement of checks, and timely deposits of cash receipts (Findings 1 through 8).

Noteworthy Accomplishments: DNR had identified the need for an independent review of cash functions and was receptive to our suggestions and assistance throughout the audit.

* See glossary on page 25 for definition.

AUDIT SCOPE AND
METHODOLOGY

Our audit scope was to examine the cash functions and other records of the Department of Natural Resources. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

To accomplish our objective, we examined DNR's records and activities covering the period October 1, 1995 through March 31, 1998. We studied legislation, administrative rules, management plans, DNR policies and procedures, and other reports and manuals. We obtained an understanding of the internal control structure* for DNR's cash functions. We observed daily activities and interviewed staff responsible for the opening and distribution of cash received through the mail. We observed daily activities and interviewed staff responsible for the daily cash receipts and deposit processes at DNR's central office in Lansing, including the cashier's office and the individual divisions.

We visited several field locations having cash collection and processing responsibilities. We interviewed field staff and observed daily operations to identify the mechanisms used and procedures in place for collecting, handling, depositing, and recording cash collections.

We observed an auction of tax reverted land, conducted by DNR staff in Flint, to evaluate the effectiveness of procedures for collecting, safeguarding, recording, and depositing cash receipts.

* See glossary on page 25 for definition.

We reviewed DNR's investment activities for special revenue funds, specifically those funds held for permanent investment or restricted to expend only interest and earnings. We compared DNR's investment activities to other State funds' investment activities, as well as market indexes.

AGENCY RESPONSES

Our audit report contains 8 findings and 9 corresponding recommendations. DNR's preliminary response indicates that it agrees with 8 recommendations and neither agrees or disagrees with 1 recommendation.

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:

This is our report on the performance audit of Cash Functions, Department of Natural Resources.

This report contains our executive digest; description of agency; audit objective, scope, and methodology and agency responses; comment, findings, recommendations, and agency preliminary responses; and a glossary of acronyms and terms.

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 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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Description of Agency

The Department of Natural Resources (DNR) was originally established by Act 17, P.A. 1921 (Sections 299.1 - 299.6 of the *Michigan Compiled Laws*) and reestablished by Act 451, P.A. 1994 (Sections 324.101 - 324.90106 of the *Michigan Compiled Laws*).

DNR receives cash from a number of different sources. Cash is received through the mail and in person within DNR. Cash is ultimately processed by the cashier's office and deposited with the Department of Treasury. During fiscal year 1996-97, approximately \$53 million was collected centrally in Lansing.

DNR also collects cash at approximately 425 different field sites. These 425 field sites consist of State forest campgrounds, State parks, field offices, boating access sites, State recreation areas, State docks/harbors, State forest areas, district offices, State trails, State wildlife areas, State game areas, regional offices, and the Ralph A. MacMullan Conference Center. Approximately 145 of these sites serve as field deposit sites. Some field deposit sites are responsible for making deposits for a number of remote field locations. These field deposit sites deposit cash into a State Treasurer's account at a local bank and fax a copy of the deposit ticket to the cashier's office in Lansing for entry into the State's accounting system. During fiscal year 1996-97, approximately \$43 million was deposited locally by field deposit sites and processed by the cashier's office in Lansing.

DNR administers several conservation and recreation related special revenue funds, a capital projects fund, and an enterprise fund. The enabling legislation for five special revenue funds requires that a portion of each fund be retained for permanent investment. As of September 30, 1997, the amounts held for permanent investments for the five funds totaled approximately \$263.1 million.

Audit Objective, Scope, and Methodology and Agency Responses

Audit Objective

Our audit objective for the performance audit of Cash Functions, Department of Natural Resources (DNR), was to assess the effectiveness and efficiency of DNR's cash handling processes and special revenue fund investments.

Audit Scope

Our audit scope was to examine the cash functions and other records of the Department of Natural Resources. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Audit Methodology

Our audit procedures were conducted during the months of July 1997 through March 1998 and included examinations of DNR's records and activities covering the period October 1, 1995 through March 31, 1998.

We studied legislation, administrative rules, management plans, DNR policies and procedures, and other reports and manuals. We identified the various cash collection points within DNR, both centrally and at field locations. We obtained an understanding of the cash depositing processes in place at the central office and the field locations. We determined which units within DNR had recording and reporting responsibilities for the field locations.

We obtained an understanding of the internal control structure for DNR's cash functions. We observed daily activities and interviewed staff responsible for opening mail and making distribution of cash received through the mail. We observed daily activities and interviewed staff responsible for the daily cash receipts and deposit processes at DNR's central office in Lansing, including the cashier's office and the individual divisions.

We visited several field locations having cash collection and processing responsibilities. We interviewed field staff and observed daily operations to identify the mechanisms used and procedures in place for collecting, handling, depositing, and recording cash receipts.

We observed an auction of tax reverted land, conducted by DNR staff in Flint, to evaluate the effectiveness of procedures for collecting, safeguarding, recording, and depositing cash receipts.

We reviewed DNR's investment activities for its special revenue funds, specifically those funds held for permanent investment or restricted to expend only interest and earnings. We compared DNR's investment activities with other State funds' investment activities, as well as market indexes.

Agency Responses

Our audit report contains 8 findings and 9 corresponding recommendations. DNR's preliminary response indicates that it agrees with 8 recommendations and neither agrees or disagrees with 1 recommendation.

The agency preliminary response which 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 Department of Management and Budget Administrative Guide procedure 1280.02 require DNR to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

COMMENT, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

EFFECTIVENESS AND EFFICIENCY OF CASH FUNCTIONS

COMMENT

Audit Objective: To assess the effectiveness and efficiency of the Department of Natural Resources' (DNR's) cash handling processes and special revenue fund investments.

Conclusion: DNR's cash handling processes and special revenue fund investments were generally effective and efficient. However, our assessment disclosed reportable conditions relating to funds held as permanent investments, cash received by mail, auctions of tax reverted land, fee enforcement, fee safes, mail logs, restrictive endorsement of checks, and timely deposits of cash receipts.

Noteworthy Accomplishments: DNR had identified the need for an independent review of its cash functions and was receptive to our suggestions and assistance throughout the audit.

FINDING

1. Funds Held as Permanent Investments

The State could increase investment returns for DNR's funds held as permanent investments.

DNR is responsible for the administration of several special revenue funds. The enabling legislation for five special revenue funds either restricts expenditures to interest earnings or requires that a portion of each fund be retained for permanent investment. As of September 30, 1997, the amounts held as permanent investments for the five funds totaled approximately \$263.1 million. The enabling legislation also stipulates that the State Treasurer shall direct the investment of the

five special revenue funds. The following exhibit identifies each fund, each fund's reserve amount, and how each fund was invested at September 30, 1997 (in millions):

Fund Name	Reserve	Portion of Reserve Invested in	
		Common Cash	Other Investments
Game and Fish Protection Trust Fund	\$ 62.1	\$ 48.4	\$ 13.7
Michigan Civilian Conservation Corps Endowment Fund	20.0	20.0	
Michigan Natural Resources Trust Fund	120.3	86.4	33.8
Michigan State Parks Endowment Fund	57.8	44.4	13.3
Michigan Nongame Fish and Wildlife Fund	2.9	2.9	
Totals	\$ 263.1	\$ 202.2	\$ 60.8

The majority of the amounts reserved (approximately 76%) were invested in the State Treasurer's Common Cash pool, which invests in short-term securities to maintain liquidity. However, it is not necessary to maintain liquidity for amounts held as permanent investments in the five DNR special revenue funds. The State Treasurer's Common Cash pool earned an average of 4.96% over the last five years.

The \$60.8 million identified as other investments is in notes and bonds backed by the United States government. These investments resulted from an October 1994 agreement between DNR and the State Treasurer. This agreement allows for the increase in principal at the conclusion of each fiscal year to be invested in indebtedness of the United States government. However, this agreement pertains to only the Michigan Natural Resources Trust Fund, Game and Fish Protection Trust Fund, and Michigan State Parks Endowment Fund. These investments earn between 7.25% and 7.77%.

Investing a portion of these funds in indebtedness of the United States government resulted in the three funds earning approximately \$1.0 million more in fiscal year 1996-97 than they would have if the amount invested had been retained in the State Treasurer's Common Cash pool. However, if the funds invested in the State

Treasurer's Common Cash pool throughout fiscal year 1996-97 (\$202.2 million) had been invested in the higher yielding investments noted above (estimated at earning 7.25% to be conservative), the funds would have received an additional \$2.7 million.

Although DNR has responsibility for administration of the five special revenue funds, the State Treasurer is responsible for the investing of these funds. The current agreement between DNR and the State Treasurer limits the investment options available for the five special revenue funds.

State-administered retirement funds are invested in stocks, bonds, real estate, and other investments. The following exhibit reflects the time-weighted rates of return for various periods ended June 30, 1997 for the investments of a State-administered retirement fund, the State Treasurer's Common Cash, and selected market indexes:

Rates of Return on Investments
Periods Ended June 30, 1997

	Fifteen-Year Annualized Rate	Five-Year Annualized Rate	Three-Year Annualized Rate	One-Year Rate
State-Administered Retirement Fund (1)	13.4%	12.8%	17.4%	21.0%
State Treasurer's Common Cash	6.9%	4.7%	5.6%	5.6%

Market Indexes:

Standard and Poor's 500	18.9%	19.8%	28.9%	34.7%
Standard and Poor's Mid-Cap	18.7%	17.6%	22.4%	23.3%
Lehman Government and Corporate	N/A(2)	7.2%	8.3%	7.8%

(1) Michigan Public School Employees Retirement System.

(2) Not Available.

Assuming that the 6.5% difference in the rate of return between the State-administered retirement fund investments and the State Treasurer's Common Cash pool over the past 15 years was to continue, and adjusting for the higher rate

of return experienced by the funds' other investments, the State could earn an additional \$14.9 million annually by investing the current amounts held as permanent investments of the five funds in investments like those of the State-administered retirement fund. If a more conservative difference of 4% is assumed, the additional earnings would be approximately \$9.1 million annually. Alternative investment strategies are presented for comparison purposes because a specific investment strategy may be required of each individual fund based on the intended use of each fund and the amount of risk the State is willing to assume.

The State Constitution currently prohibits DNR's five special revenue funds from investing like State-administered retirement funds. Article 9, Section 19 of the State Constitution states:

The state shall not subscribe to, nor be interested in the stock of any company, association or corporation, except that funds accumulated to provide retirement or pension benefits for public officials and employees may be invested as provided by law

Therefore, it is acceptable for retirement funds, but not acceptable for the five special revenue funds, to participate in stock ownership of companies, associations, and corporations. An amendment to the State Constitution would be required that would allow the State to invest these five special revenue funds in the same manner as State-administered retirement funds.

The funds held for permanent investments are expected to grow substantially over time. For example, the Michigan Natural Resources Trust Fund and Michigan State Parks Endowment Fund are expected to reach caps of \$400 million and \$800 million, respectively. Using the 4% difference in assumed rates of return discussed above applied to current Common Cash holdings, along with a 2.6% difference applied to current and future investment amounts, additional earnings of approximately \$11 million and \$21 million annually would result for those respective funds when they reach their caps. Because of the potential amounts involved, we believe that the State needs to consider a Constitutional amendment to provide for diversified investment of money held by these funds intended to be permanent investments.

RECOMMENDATIONS

We recommend that DNR continue to work with the Department of Treasury to increase investment returns for funds held for permanent investment.

We also recommend that the State consider a constitutional amendment to allow DNR's five special revenue funds to invest funds held for permanent investment in a manner similar to the State-administered retirement funds.

AGENCY PRELIMINARY RESPONSE

DNR agrees with our first recommendation and recognizes the financial implications of current investment law. DNR will continue to work with the Department of Treasury on investment policies.

In regard to the second recommendation, DNR believes this to be a Statewide issue, which the OAG has attached to this DNR audit vehicle. The finding does not represent a legitimate audit finding relative to the manner in which the DNR has complied with current constitutional law.

FINDING

2. Cash Received by Mail

DNR could improve the effectiveness of its cash receipts process and controls over cash receipts by promptly delivering mail receipts to the cashier's office.

The cashier's office processed receipts totaling approximately \$53 million during fiscal year 1996-97. The majority of the receipts were received through the mail. Mail is delivered to DNR's mailroom four times a day. There are two morning deliveries (one early morning and one mid-morning) that contain first class mail, and there are two afternoon deliveries (one early afternoon and one mid-afternoon) that primarily consist of inter-departmental mail from other State agencies. The majority of incoming cash is received during the two morning mail deliveries.

After each of the four daily deliveries, mail is sorted and delivered to the appropriate division. Mail addressed to DNR, the cashier's office, or the License Control Unit is opened in the mailroom. Currency is delivered immediately to the

cashier's office; however, checks are stored in the mailroom until they are delivered to the cashier's office in the early afternoon for processing and deposit. We noted that:

- a. Checks received through the mail were not delivered to the cashier's office in a timely manner. Delivery of checks to the cashier's office in the afternoon did not allow the cashier's office adequate time to process the receipts and make a deposit with the Department of Treasury on the same day. Deposits received by the Department of Treasury after 2:30 pm are subject to being posted in the State's accounting system as deposits for the next business day. The cashier's office held (in a secure area) all checks received in one day for processing and deposit on the following business day. The current check delivery and processing schedule resulted in lost interest for the DNR and the State as a whole.
- b. Checks were stored in an unsecured area until they were delivered to the cashier's office. The mailroom did not have a secure area to adequately safeguard checks until they were delivered to the cashier's office.

DNR was in the process of relocating its mailroom. The new location could provide a secure area to store checks prior to delivery.

RECOMMENDATION

We recommend that DNR improve the effectiveness of its cash receipts process and controls over cash receipts by requiring the prompt delivery of mail receipts to the cashier's office.

AGENCY PRELIMINARY RESPONSE

DNR agrees and will comply. The mailroom and cashiers office are working together to ensure that money is deposited with the Department of Treasury by 2:30 p.m. on the day of receipt whenever possible. DNR has appropriate cash receipts policies in place and will ensure that its process matches its policies.

FINDING

3. Auctions of Tax Reverted Land

DNR did not have an effective system for safeguarding and depositing cash received from the auction of tax reverted land.

The Real Estate Division (RED) conducts periodic auctions of tax reverted land at various sites throughout the State. This includes auctions conducted in the City of Detroit three times a year. These auctions may take up to a week to complete. A successful bidder must pay the full amount due on the day of the auction. Acceptable forms of payment are currency, cashier's check, money order, or personal check. The first \$500 (\$1,000 in the City of Detroit) must be in cash or a cashier's check.

Approximately 75% of the time, RED auction staff exchange the currency received during the day for a cashier's check at the end of the day. The rest of the time, the exchange is made the following day. This results in RED staff retaining personal control over large sums of currency overnight. Deposits are not made until the auction is concluded and RED staff return to Lansing at the end of each week's auction. In some cases, this may be the following week.

During fiscal year 1996-97, proceeds from auctions of tax reverted land were approximately \$9 million. An effective system for safeguarding cash received at an auction includes the immediate deposit of receipts. This would also reduce the risk RED staff encounter while conducting the auctions. In addition, the lack of timely deposits results in lost interest earnings to the State.

DNR has contacted the Department of Treasury for assistance in obtaining the services of a local bank so that money received at the auctions can be deposited daily. In addition, RED has identified processing changes to be made during the auctions that would provide for daily deposits.

RECOMMENDATION

We recommend that DNR establish an effective system for safeguarding and depositing cash received from the auctions of tax reverted land.

AGENCY PRELIMINARY RESPONSE

DNR agrees and has complied. DNR implemented a new process for the 1998 spring auction. Land sale auctions frequently do not conclude until 5 p.m., with the bulk of the sale proceeds coming in at the end of the day. This situation made it difficult for sale staff to make bank deposits on the same day as the sale.

The situation has been corrected. Special arrangements with a financial institution, in the City of Detroit, have made it possible for all cash to be directly deposited the day of the sale. In out-State areas, cash is converted to money orders and deposited through the cashier's office when staff return from the sale. Additionally, all checks are now restrictively endorsed immediately at the point of sale. Also, Real Estate Division accounting staff now attend public auctions and monitor the cashiering process.

FINDING

4. Fee Enforcement

DNR has been inconsistent in who it allows to issue tickets for violations of registration fee requirements.

DNR manages approximately 150 State forest campgrounds. A fee is required to camp at any of the campgrounds; however, none of the campgrounds have attendants to collect fees. Instead, a fee envelope and safe system are used to collect fees. Each camper is to fill out an envelope with registration information, insert the appropriate fee, and deposit the envelope in a locked box. A DNR employee periodically picks up the fees.

Parks and Recreation Division (PRD) park rangers may issue tickets to improperly registered visitors in State parks; however, district office employees, who visit State forest campground sites to collect fees, must call a conservation officer if they note unregistered campers. This appears to be an inefficient use of staff by requiring conservation officers to be called to write tickets when the district office employees are already at the sites.

RECOMMENDATION

We recommend that DNR consider authorizing district office staff to issue violation tickets at State forest campgrounds.

AGENCY PRELIMINARY RESPONSE

DNR agrees and is currently pursuing legislation that would change the enforcement authority at State forest campgrounds.

FINDING

5. **Fee Safes**

DNR could improve the effectiveness and efficiency of its collection efforts at remote locations.

Fee safes are currently used in State forest campgrounds and State parks for the collection of fees. The fee safes allow for the collection of use fees at sites when DNR staff are not available to collect fees. State forest campgrounds use fee safes for all fee collections when DNR staff are not on duty.

DNR staff periodically collect the fees from the fee safes through a locked opening at the bottom of each fee safe. Sound internal controls require that two people be present when funds are removed from the safes. However, DNR staffing levels and the distance between locations do not allow for two individuals to be present when the fee safes are opened. As an alternative, fee safes are available with removable locked inserts. A fee safe with a removable insert is designed so that the insert can be extracted from the fee safe shell and be replaced by a second insert to allow for uninterrupted collection capability. The insert containing the fees can then be taken back to a central location while keeping its contents intact.

A separate key for the insert would then be required for opening, which allows for one individual to collect fee safe inserts from multiple sites without weakening internal controls. Once the fee safe inserts have been retrieved, they can then be opened with two DNR staff present.

Fee safes with removable inserts would allow for more widespread use of fee safes in the field without increasing staffing and allowing for increased accountability and safeguarding of DNR assets.

The Forest Management Division has been pursuing the use of fee safes with removable inserts for application in State forest campgrounds when existing fee safes are in need of replacement. The most expensive fee safe we priced that uses a removable insert would cost approximately \$1,000. The package consisted of the fee safe shell and two fee inserts, the absolute minimum combination to ensure maximum efficiency and effectiveness. This is approximately three times the cost of a standard fee safe without a removable insert; however, additional revenue collections should easily recoup the initial outlay cost.

RECOMMENDATION

We recommend that DNR use fee safes with removable inserts to maximize the effectiveness and efficiency of its collection efforts at remote locations.

AGENCY PRELIMINARY RESPONSE

DNR agrees and will implement fee safes with removable inserts where it is cost effective.

FINDING

6. Mail Logs

DNR did not effectively use mail logs to aid in safeguarding cash received through the mail.

Most of the revenue that DNR receives through the mail is in mail addressed to the DNR or to its cashier's office. These items are opened in the mailroom and the receipts are forwarded to the cashier's office for processing and deposit. Other mail containing receipts is addressed to a specific individual or division and is delivered unopened. RED, for example, receives approximately \$6 million to \$7 million annually through the mail. These receipts primarily consist of oil and gas royalties and Farmland/Open Space Act repayments.

DNR could not assure itself that all cash and cash equivalents received through the mail had been forwarded to the cashier's office for deposit. We noted:

- a. The mail log prepared by the mailroom staff did not contain the detail necessary for verification of receipts by the cashier's office. The mail log did not contain a detailed listing of receipts, and the cashier's office staff did not initial the log signifying verification and acceptance of the items received.

The mailroom was primarily staffed with temporary employees, and adequate training was not provided to them as to the requirements of an acceptable mail log.

- b. The cashier's office did not verify the accuracy of the mail log to the cash received from the mailroom. The mail log prepared by the mailroom was initialed by the cashier's office acknowledging receipt of the cash, but the cash was not compared to the mail log to verify that it was accurate. This considerably reduced the effectiveness of the mail log.

The cashier's office staff informed us that they did not verify the accuracy of the mail log because past history showed the mail log was not reliable.

- c. DNR's divisions did not consistently use mail logs to record cash received through the mail. The Forest Management and Wildlife Divisions did not maintain logs of money received through the mail. The only log the PRD maintained was for money received for motor vehicle permits. However, mail logs were not taken to the cashier's office with the cash for independent verification.

During our audit fieldwork, the Wildlife Division was developing a cash handling procedure that included the use of a mail log.

Department of Management and Budget (DMB) Administrative Guide procedure 1270.02 requires that cash received by mail be recorded on a cash log prepared by the mail openers. The log must contain the date received, type received (cash, currency, warrants, etc.), amount received, and the initials of the mail openers.

The cashier must initial the mail log acknowledging the verification of its completeness and the transfer of money from the mail openers.

In February 1997, DNR received a consultant's report that recommended that DNR have all mail opened centrally. DNR is pursuing the feasibility of implementing this recommendation. The report also recommended that DNR require its divisions to use the Accounts Receivable System (ARS) to facilitate cash receipts being collected and opened in one location. ARS would create and print an invoice with the cashier's office post office box as the return address; thus, directing payment to the cashier's office. Some divisions are already using ARS, and RED is considering using ARS to reduce the amount of cash received through the mail.

RECOMMENDATION

We recommend that DNR effectively use mail logs to aid in safeguarding cash received through the mail.

AGENCY PRELIMINARY RESPONSE

DNR agrees and will comply. The cashier's office staff has been instructed to take appropriate action when mail logs are not provided, or when they are routinely received containing errors, and to verify the accuracy of the mail log to the cash received from the mailroom.

FINDING

7. Restrictive Endorsement of Checks

DNR did not restrictively endorse checks immediately upon receipt.

The immediate restrictive endorsement of checks provides added security and safeguards until the checks are deposited. We noted that checks received and opened by the mailroom, received by RED and the Forest Management Division, and received during auctions of tax reverted land were not restrictively endorsed upon receipt. These checks were not restrictively endorsed until they were processed through DNR's Receipts Processing System in the cashier's office.

DMB Administrative Guide procedure 1270.02 states that checks and money orders must be restrictively endorsed immediately upon receipt, unless they are received in error. Also, DNR Administrative Procedure 02.01-00 requires DNR employees to immediately place a restrictive endorsement on all checks and money orders received. In addition, DNR Administrative Procedure 02.01-01 requires that the DNR receiving location endorse all checks received with a restrictive endorsement stamp after the mail is opened.

RECOMMENDATION

We recommend that DNR restrictively endorse checks immediately upon receipt.

AGENCY PRELIMINARY RESPONSE

DNR agrees and will comply. The practice of restrictively endorsing checks immediately upon receipt is being done at all major collection points, with some minor exceptions that are beyond our control.

FINDING

8. Timely Deposits of Cash Receipts

DNR did not deposit cash receipts in a timely manner.

Good business practice requires that cash receipts be processed and deposited expeditiously. Failure to deposit cash receipts in a timely manner results in lost interest to DNR and the State. Also, delay in depositing cash receipts weakens internal control over those receipts. Our review of deposits disclosed:

- a. The cashier's office deposited cash receipts from 1 to 6 days after they were received. The receipts had been processed internally through DNR's Receipt Processing System and recorded in the State's accounting system the Michigan Administrative Information Network (MAIN). However, the cashier's office had not deposited the receipts in a timely manner because it believed that interest payments to DNR were based on the date the deposits were recorded in MAIN; therefore, it made no difference when the receipts were physically deposited with the State Treasurer.

The cashier's office processed approximately \$53 million of receipts during fiscal year 1996-97. We estimated that untimely deposits resulted in lost interest income of approximately \$20,400 during fiscal year 1996-97.

- b. Some divisions did not deposit cash receipts in a timely manner. The Forest Management Division had delivered checks to the cashier's office that were over one month old. Also, PRD has held currency for approximately two months before delivering it to the cashier's office.

DMB Administrative Guide procedure 1210.04 requires the deposit of cash receipts on the day of receipt or no later than the close of business on the following day.

During our audit fieldwork, we informed DNR of the untimely deposits of cash receipts with the State Treasurer. DNR took appropriate actions to ensure the timely deposit of receipts.

RECOMMENDATION

We recommend that DNR deposit cash receipts in a timely manner.

AGENCY PRELIMINARY RESPONSE

DNR agrees and will comply. DNR has taken appropriate actions to ensure the timely deposit of receipts.

Glossary of Acronyms and Terms

ARS	Accounts Receivable System.
cash	Money received in the form of currency, a money order, or check.
DMB	Department of Management and Budget.
DNR	Department of Natural Resources.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical for the amount of resources applied or minimizing the amount of resources required to attain a certain level of outputs or outcomes.
fee safe	A collection device which allows for the accumulation of payments. A lock prevents the removal of the device's contents.
field deposit sites	DNR locations outside of the Stevens T. Mason Building in Lansing that are responsible for depositing cash collections with local banks.
field sites	DNR locations outside of the Stevens T. Mason Building in Lansing.
internal control structure	The management control environment, management information system, and control policies and procedures established by management to provide reasonable assurance that goals are met; that resources are used in compliance with laws and regulations; and that valid and reliable performance related information is obtained and reported.

mail log	A listing to document cash items received through the mail.
MAIN	Michigan Administrative Information Network.
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 public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
PRD	Parks and Recreation Division.
RED	Real Estate Division.
reportable condition	A matter coming to the auditor's attention that, in his/her judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.
tax reverted land	Land obtained by a local taxing authority as a result of the land owner's failure to pay taxes owed on the land.