

Office of the Auditor General
Performance Audit Report

**State Park Concessions, Leases, and
Operating Agreements**

Parks and Recreation Division
Department of Natural Resources

May 2022

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.

The auditor general may make investigations pertinent to the conduct of audits.

Article IV, Section 53 of the Michigan Constitution



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Office of the Auditor General

Report Summary

Performance Audit

State Park Concessions, Leases, and Operating Agreements

Parks and Recreation Division

Department of Natural Resources (DNR)

Report Number:

751-0135-21

Released:

May 2022

The Parks and Recreation Division manages 103 State parks, recreation areas, and scenic sites, with 54 of them operating one or more concessions. The Division also administers 96 harbors, 1,100 boating access sites, and 12,500 miles of trails with more than 1,200 leases and nonexclusive operating agreements. The Division enters into concession contracts, leases, and operating agreements (agreements) to acquire, protect, and preserve the natural and cultural features of Michigan's unique resources and to provide access to land- and water-based recreation and educational opportunities. The Division had revenues totaling \$1.8 million and \$1.4 million in fiscal years 2019 and 2020, respectively, from agreement commissions.

Audit Objective			Conclusion
Objective 1: To assess the sufficiency of the Division's efforts to monitor State park concessions, leases, and operating agreements.			Not sufficient
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
Six of 31 concession operators at the State parks had unsecured tools, broken items, and/or structural damage posing a safety risk. Seven of 31 concession operators sold contractually prohibited items, and we considered 5 of 31 concession operators' premises unorganized and unclean (Finding 1).	X		Agrees
Ancillary documents to various agreements, such as insurance policies and inspection reports, were missing for 52 of 173 instances (Finding 2).	X		Agrees
DNR did not fully implement access controls over the Central Reservation System (CRS), increasing the risk of unauthorized access, use, and modification of CRS data. Privileged access rights were not always assigned based on job responsibilities. Three (7%) of 43 users no longer needed access (Finding 3).		X	Agrees

Audit Objective			Conclusion
Objective 2: To assess the sufficiency of the Division's efforts to maximize revenue or obtain valuable consideration from concessions, leases, and operating agreements.			Sufficient, with exceptions
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
Improved segregation of duties over cash handling is needed. Mail was not opened and cash logs were not verified by two employees. Twelve (17%) of 71 concession payments received at State parks were not certified by two employees (Finding 4).		X	Agrees
Strengthened controls over revenue recording are needed because the Division's Excel tracking spreadsheets excluded over \$280,000 (8%) of revenue collected from agreements (Finding 5).		X	Agrees
Collection of revenue and assessment of late fees for agreements need improvement. Of 102 payments, 43 (42%) were either received late or not received and late fees of \$16,150 were not assessed (Finding 6).		X	Agrees
Improvements in quantifying valuable consideration for lease agreements are needed to ensure sufficient benefits are received from lessees. Valuable consideration was not quantified for 20 (95%) of 21 lease agreements (Finding 7).		X	Agrees
Observations Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
Opportunities exist for the Division to facilitate communication between park staff and its Innovations Team, which could increase recreational opportunities for the public and increase revenue for the State (Observation 1).	Not applicable for observations.		

Audit Objective			Conclusion
Objective 3: To assess the effectiveness of the Division's efforts to award State park concession, lease, and operating agreement contracts in accordance with applicable requirements.			Effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
Two (20%) of 10 concession contracts reviewed were not awarded in accordance with applicable requirements. Also, documentation was lacking to support concession contract award decisions for 4 (40%) bids (Finding 8).		X	Agrees

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Auditor General

May 17, 2022

Ms. Carol Rose, Chair
Natural Resources Commission
and
Mr. Daniel Eichinger, Director
Department of Natural Resources
Constitution Hall
Lansing, Michigan

Dear Ms. Rose and Mr. Eichinger:

This is our performance audit report on State Park Concessions, Leases, and Operating Agreements, Parks and Recreation Division, Department of Natural Resources.

We organize our findings and observations by audit objective. Your agency provided preliminary responses to the recommendations at the end of our fieldwork. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and to submit it to the State Budget Office upon completion of an audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, 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.

Sincerely,

Doug Ringler
Auditor General

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AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

MONITORING CONCESSIONS, LEASES, AND OPERATING AGREEMENTS

BACKGROUND

The Department of Natural Resources (DNR) manages the State's park and recreation system that includes 103 State parks, recreation areas, and scenic sites. There were 748 agreements* in place at the State parks, consisting of 113 concession contracts*, 156 leases*, and 479 operating agreements* (see Exhibit 1). The Parks and Recreation Division's concession and lease manager is responsible for monitoring all agreements which includes managing payments from vendors, ensuring required annual forms are submitted by each vendor, and issuing violation notices.

The Division uses DNR's Central Reservation System* (CRS) to record revenue from these agreements.

AUDIT OBJECTIVE

To assess the sufficiency of the Division's efforts to monitor State park concessions, leases, and operating agreements.

CONCLUSION

Not sufficient.

FACTORS IMPACTING CONCLUSION

- Material conditions* related to sufficient monitoring of concession operations to ensure compliance with contract requirements and controls over management of contract documentation (Findings 1 and 2).
- Reportable condition* related to establishing additional CRS access controls* (Finding 3).
- 85% of State park managers and supervisors surveyed indicated they were satisfied with the agreements in place at their parks.

* See glossary at end of report for definition.

FINDING 1

Improved concession monitoring needed.

The Division did not sufficiently monitor concession operations to ensure compliance with contractual requirements. Increased and improved annual and periodic inspections would help the Division identify and correct contract violations.

Parks and Recreation policy 1.3 provides guidance on the administration of concessions and requires the unit supervisor/manager to visit each concession often and conduct annual inspections.

Examples of contractual obligations between the Division and concession operators include:

- Keeping all areas of the premises clean and safe and performing routine maintenance.
- Disallowing the sale of prohibited items.
- Operating according to minimum scheduled days and hours.
- Registering rental watercraft consistent with Section 324.80124 of the *Michigan Compiled Laws*.
- Offering a variety of healthy food items for sale.

We conducted site visits at 14 State parks and recreation areas to verify operator compliance with contractual obligations. We observed 31 operators with 30 concession contracts and 1 operating agreement.

The Division did not ensure concession operators:

- a. Ensured the safety, maintenance, and cleanliness of their operations. We noted:
 - (1) 6 (19%) of 31 operators had unsecured tools, broken items, or structural damage posing a safety risk to the public, such as knives, rotted support beams, open electrical panels, and damaged watercraft on the premises. Exhibit 2 provides photographs of examples of items noted during our State park visits.
 - (2) 1 (33%) of 3 water parks did not ensure the required number of lifeguards were properly positioned to view all sides of the inflatable equipment. The Division previously issued a violation notice informing the operator that, on two occasions, park staff observed lifeguards monitoring the water park from the beach rather than being in the water and/or on the equipment as required.

- (3) 1 (33%) of 3 water parks was not equipped with a required automated external defibrillator (AED) (see Exhibit 2).

After our review, the Division informed us the operator installed an AED.

- (4) 5 (16%) of 31 operators had unorganized or unclean premises. For example, storage rooms visible to campers were unsightly and cluttered with empty boxes and other items. At another location, staff were required to climb over a table to reach items in the storage area (see Exhibit 2).

Prohibited items were sold at 7 (23%) of 31 concessions sampled.

- b. Restricted the sale of contractually prohibited items for 7 (23%) of 31 operators. Prohibited items include fixed blade knives, non-Coast Guard approved flotation devices, and unbundled or large firewood exceeding contractual specifications. The Division also identified prior violations related to the sale of knives.
- c. Operated during contractually required days and hours. Two (6%) of the 31 vendors were closed or not operating during our site visits and had not obtained park manager approval. This included 1 watercraft rental and 1 camp store. After our review, the Division informed us it terminated 1 of the 2 contracts.
- d. Properly registered watercraft. Eight (73%) of 11 operators offering watercraft rentals did not ensure all watercraft were registered with the Secretary of State. We noted 58 (27%) of 212 watercraft observed were unregistered or had expired registrations (see Exhibit 2). Section 324.80124 of the *Michigan Compiled Laws* requires a registration fee for nonmotorized canoes and kayaks used for rental or commercial purposes.
- e. Sold contractually required items. Two (6%) of the 31 operators did not sell required healthy items such as fresh fruit and vegetables.

We also surveyed State park managers and supervisors, and 14 (26%) of 53 respondents were dissatisfied with current operators in their park, primarily because of contract violations.

We consider this finding to be a material condition because of the number of exceptions noted, the safety risk to the public, and the negative impression left with visitors when noticing subpar operators.

RECOMMENDATION

We recommend that the Division sufficiently monitor concession operations to ensure compliance with contractual requirements.

**AGENCY
PRELIMINARY
RESPONSE**

DNR provided us with the following response:

DNR agrees with the recommendation. DNR has hired a second lease and concession manager to improve concession monitoring. In addition, DNR is currently developing training for field staff to ensure compliance with policies. DNR is also developing better materials and training for field staff to use during site audits.

FINDING 2

Improved contract management needed.

Documentation was not maintained for 52 (30%) of 173 required documents.

The Division had not established sufficient internal control* over its management of required contract documentation to reduce the risk of contract noncompliance.

Section 324.503 of the *Michigan Compiled Laws* provides the Division the authority and responsibility to issue and monitor agreements.

We reviewed 37 agreement contracts to verify the Division obtained all required contract-related documentation. Our review disclosed the Division:

- a. Did not obtain or maintain 52 (30%) of 173 required documents. Specifically, the Division did not have:
 - 15 (88%) of 17 inspection reports.
 - 16 (48%) of 33 workers' compensation insurance policies.
 - 10 (30%) of 33 liability insurance policies.
 - 3 (17%) of 18 price lists.
 - 3 (17%) of 18 employee lists.
 - 2 (14%) of 14 equipment lists.
 - 1 (10%) of 10 COVID-19* pandemic plans.
 - 1 (7%) of 14 profit and loss reports.
 - 1 (6%) of 16 bond deposit receipts.

Parks and Recreation policy 1.3 requires concessionaires to complete and submit all required documentation to the concession and lease manager prior to opening each operating season and requires park unit supervisors/managers to provide a signed annual Concession Inspection Report to the concession and lease manager at the end of each year. In addition, Executive Order No. 2020-91 required businesses to develop a COVID-19 pandemic preparedness and response plan, which the Division required to be provided to the concession and lease manager for each concession.

Parks and Recreation policy 1.9 requires the concession and lease manager or the DNR lease administrator to ensure insurance coverage remains up to date at the levels specified in the lease.

- b. Was unable to provide documentation proving concessionaires performed required background checks for contractors and employees for 2 (11%) of 18 contracts. Parks and Recreation policy 1.3 requires concessionaires to complete background checks on all persons scheduled to work on State land with the public prior to opening each operating season.

* See glossary at end of report for definition.

- c. Did not ensure liability insurance coverage amounts were adequate for 11 (33%) of 33 contracts when liability insurance was required. Parks and Recreation policy 1.9 requires the concession and lease manager or the DNR lease administrator to ensure insurance coverage remains up to date at the levels specified in the lease.
- d. Did not have a centralized system to track all agreements or similar activities managed by DNR partners, such as friends groups*. The Division used Excel spreadsheets to track the agreements in place at each State park and the receipt of required documentation for those agreements. Without a complete record of the operations in place at the parks, the Division cannot ensure it receives all required contract-related documentation and the proper commissions.

We surveyed State park supervisors and managers and received 53 responses, which included a list of agreements at their parks. We compared these responses with the Division's Excel tracking spreadsheets. Our review disclosed the Division's Excel tracking spreadsheets did not include:

- (1) 2 (2%) of 120 agreements operated by outside entities.
- (2) 2 (9%) of 23 concessions operated by State park employees. Both untracked concessions were boat rental concessions.
- (3) 7 (37%) of 19 activities provided by partners of DNR. Examples of these activities include trail maintenance or educational and recreational opportunities for the public.

The Division informed us the lack of staffing and proper contract management software may have resulted in documentation retention issues.

We consider this finding to be a material condition because of the significant exception rates and the potential liability the State could incur without proper insurance.

RECOMMENDATION

We recommend that the Division establish sufficient internal control over its management of required contract documentation to reduce the risk of contract noncompliance.

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

**AGENCY
PRELIMINARY
RESPONSE**

DNR provided us with the following response:

DNR agrees with the recommendation. DNR has implemented various changes to improve contract management. DNR has hired a second lease and concession manager to increase program oversight. DNR has begun transitioning contract management from Microsoft Excel spreadsheets to Microsoft Lists. DNR is also moving all current files into electronic formats for easier collection, storage, retrieval, and management. DNR is researching contract management software options that would streamline the contracting process of collecting data, executing contracts, and storing materials to provide better organization and efficiency.

FINDING 3

Access controls over CRS need improvement.

The Division should establish additional access controls over CRS to help prevent and detect inappropriate access and prevent inappropriate revenue transactions.

State of Michigan Technical Standard 1340.00.020.01 requires agencies to implement processes to grant access rights based on the principle of least privilege*, review the appropriateness of user accounts annually or semiannually for privileged accounts, and remove access within 72 hours when it is no longer required.

The Division did not:

- a. Develop and assign roles based on the principle of least privilege. We identified 13 users with privileged access*; however, this access was not always appropriate based on job responsibilities. For example, Michigan Department of Transportation Accounting Service Center employees were assigned privileged access but did not need all the associated access rights, such as assigning the field administrator role.
- b. Periodically review the appropriateness of active user accounts to determine if users were removed when access was no longer required. Our review of 43 randomly sampled CRS users without super-user privileges disclosed 3 (7%) users' access was not removed when no longer required to perform their job duties. These users had their access for an average of 189 days after terminating their employment with DNR.

The Division informed us the parks are responsible for reviewing access monthly for their locations; however, there is no central review done by the system administrator.

We noted a related issue in our August 2016 performance audit of the Central Reservation System for Recreational Resources, Department of Natural Resources (751-0591-16), related to DNR's need to fully establish and implement access controls over CRS. In response to that audit, DNR agreed with the recommendation and indicated it would work to implement the controls.

RECOMMENDATION

We recommend that the Division establish additional access controls over CRS to help prevent and detect inappropriate access and prevent inappropriate transactions.

AGENCY PRELIMINARY RESPONSE

DNR provided us with the following response:

DNR agrees with the recommendation. DNR has implemented the principle of least privilege concerning user access to CRS, thereby reducing the number of super users to only those positions that require that level of privileged access.

* See glossary at end of report for definition.

MAXIMIZING REVENUE OR OBTAINING VALUABLE CONSIDERATION

BACKGROUND

The Division enters into agreement contracts based on remuneration paid or valuable consideration* given to the State. Revenue from concessions is processed at State parks whereas revenue from leases and operating agreements is processed at the Roscommon Customer Service Center.

The Division's Innovations Team reviews and evaluates new ideas for agreements and identifies possible challenges to the implementation of new ideas. Division employees spend up to 10% of their time assisting with tasks such as budgeting and seeking out locations for new operations.

AUDIT OBJECTIVE

To assess the sufficiency of the Division's efforts to maximize revenue or obtain valuable consideration from concessions, leases, and operating agreements.

CONCLUSION

Sufficient, with exceptions.

FACTORS IMPACTING CONCLUSION

- 96% of State park managers and supervisors were satisfied with the processes for implementing new agreements.
- The Innovations Team helped identify new revenue-generating agreements with input from potential vendors.
- Reportable conditions related to improved segregation of duties* over cash receipts, improved controls over revenue recording and reporting, controls over the collection of revenue, and the need to quantify valuable consideration (Findings 4 through 7).
- Observation* related to improved communication between State parks and the Innovations Team regarding new recreational opportunities (Observation 1).

* See glossary at end of report for definition.

FINDING 4

Improved segregation of duties over cash receipts needed.

The Division had not established sufficient segregation of duties over cash receipts to reduce the risk of theft or misappropriation.

The State of Michigan Financial Management Guide (Part II, Chapter 9, Section 100) requires cash received by mail to be recorded on a cash log prepared by the mail openers. The log should include the initials of at least two mail openers.

During our audit period, the Division receipted \$1.4 million from leases and operating agreements at the Roscommon Customer Service Center and \$2.3 million from concession contracts at State parks. Our review disclosed the Division did not ensure:

- a. Lease and operating agreement payments received via mail were opened in the presence of two employees. Only one Division employee works at the Roscommon Customer Service Center; hence, no additional employees were available.
- b. Daily cash logs were verified by a second employee. The daily cash logs track the number of checks received, the amount of each check, the division the checks related to, and a check description.
- c. Concession payments received at State parks were properly certified by two State park employees, specifically an employee to receive payment and an employee to verify accurate reporting of receipts in CRS. We identified 71 concession payments totaling \$575,281 of which 12 (17%) payments totaling \$30,704 were not certified by two different park staff. The Division informed us staff shortages at the State parks may contribute to the failure to properly certify concession payments received.

Although we did not identify any instances of improprieties over the receipt of cash, the risk of misappropriation still exists.

After our review, the Division informed us it brought its deposit handling and centralized mail opening procedures for leases and operating agreements into compliance with departmentwide mail and deposit handling policies and procedures, 2.01-00 and 2.01-01, which require mail and cash receipts to be secured in a safe until they can be opened in the presence of two individuals and the deposit of checks when a second individual can observe and sign the daily cash log. The Division also informed us it is in the process of developing long-term plans for the DNR cashier office in Lansing to receive checks and cash for deposit.

RECOMMENDATION

We recommend that the Division establish and maintain sufficient segregation of duties over cash receipts to reduce the risk of theft or misappropriation.

**AGENCY
PRELIMINARY
RESPONSE**

DNR provided us with the following response:

DNR agrees with the recommendation. Pertinent DNR staff have completed training on invoicing through the Michigan Cashiering and Receivable System (MiCaRS) – a revenue control application that allows users to invoice, record, correct, and report State revenue. DNR cashier office in Lansing will receive non-concession checks and cash for deposit. Staff will receive training on existing policies concerning segregation of duties to ensure proper controls are followed when handling cash receipts in State parks.

FINDING 5

Improved controls over revenue tracking needed.

The Division did not fully establish controls for recording all State park concession, lease, and operating agreement revenue in CRS to help ensure all received revenue is recorded.

Section 18.1485 of the *Michigan Compiled Laws* requires each department to create recordkeeping procedures to control revenues. Although revenue is recorded in the Statewide Integrated Governmental Management Applications* (SIGMA), the Division uses CRS and Excel spreadsheets to monitor commission revenue earned from agreements at the State parks and other recreational areas. Complete recordkeeping helps the Division monitor and follow up on missing payments.

Our review of the Division's accounting records from October 1, 2018 through June 30, 2021 disclosed the Division did not:

- a. Sufficiently record the receipt of commission revenue in its Excel tracking spreadsheets, resulting in untracked revenue of \$282,814 (8%) from fiscal years 2019 through 2021 as follows:

<u>Fiscal Year</u>	<u>Untracked Revenue</u>
2019	\$ 62,400 (3%)
2020	82,291 (6%)
2021	138,123 (18%)
	<u>\$282,814 (8%)</u>

In addition, the Division did not fully record all revenue received in its Excel tracking spreadsheet. During revenue collection testing, we reviewed 98 payments from 40 sampled agreements and noted the Division did not record or correctly record 11 (11%) of the 98 payments in its Excel spreadsheet. One of the 11 recorded payments was overstated by \$1,006, and 10 payments totaling \$3,697 were not recorded. The Division informed us the monthly CRS reports provided to the concession and lease manager do not contain all concession revenue transactions.

- b. Establish a sufficient year-end closing process to accurately record revenue in the proper fiscal year within SIGMA. The fiscal year misclassification resulted in an understatement or overstatement of revenue in fiscal years 2019 through 2021 as follows:

<u>Fiscal Year</u>	<u>Overstated/ (Understated) Revenue</u>
2019	\$ (21,778) (1%)
2020	\$ 59,581 (4%)
2021	\$ 56,697 (7%)

* See glossary at end of report for definition.

The Division informed us the process of capturing point-of-sale items entered into CRS as prior year revenue was a newly established process in fiscal year 2020. For fiscal year 2020 revenue collected in fiscal year 2021, the Division used a cutoff date of October 13, 2021. Although the amount of misclassified revenue was not material, without proper controls, errors could continue to occur and negatively affect revenue collection efforts.

RECOMMENDATION

We recommend that the Division fully establish controls for recording all State park concession, lease, and operating agreement revenue in CRS.

**AGENCY
PRELIMINARY
RESPONSE**

DNR provided us with the following response:

DNR agrees with the recommendation. DNR has implemented a process of utilizing CRS notes to determine the proper fiscal year for concession payments receipted in October. During the year-end closing process, receivables are established to record the revenue in the proper fiscal year. To account for payments receipted outside CRS, the process changes implemented in September 2021 to invoice concessionaries and lease / operating agreement vendors via MiCaRS should result in accurate recording of revenue from that date forward. DNR is developing a tracking system in Microsoft Lists to assist with real-time tracking and reporting throughout the lifecycle of the agreements.

FINDING 6

Improved controls over revenue collection needed.

The Division did not fully establish controls over the collection of concession, lease, and operating agreement revenue and the assessment and collection of late fees. Therefore, the Division cannot ensure revenue is collected in a timely manner and in the proper amount and late fees are appropriately assessed and collected when due.

Section 18.1485 of the *Michigan Compiled Laws* requires each department to create recordkeeping procedures to control revenues. In addition, contractual agreements between the Division and the concessionaire, lessee, or operator define payment amounts, due dates, late fee assessments, and the availability of accounting records.

Our review of 102 payments due from October 1, 2018 through June 30, 2021 disclosed the Division did not:

- a. Ensure payments from agreements were received in a timely manner. Of the 102 payments, 43 (42%) were either received late or not received at all. The Division did not assess contractually required late fees of \$10 per day, resulting in revenue loss of up to \$16,150 (2% of sampled revenue). Late fees act as a deterrent to encourage vendors to remit payments on time.
- b. Ensure the remittance of contractually agreed upon amounts from agreements in 16 (16%) of 102 instances. Of these, 7 (7%) payments were not remitted, resulting in lost revenue of \$2,620. In addition, the Division received 9 (9%) overpayments resulting in the overcollection of \$5,548. Although these examples did not have a significant impact on revenue collected, future occurrences could.
- c. Ensure operators maintained sufficient accounting records for contracts requiring payments based on a percentage of monthly gross sales. Of the 102 payments tested, 66 (65%) payments were based on a percentage of sales. The Division could not provide sufficient accounting records for 20 (30%) of 66 accounting periods, increasing the risk of underpayments. For example, one State park's gift shop was unable to provide records from an accounting or cashiering system and was able to provide only handwritten sales figures in all 5 (100%) accounting periods sampled.
- d. Ensure operators with agreements to pay a percentage of gross sales remitted proof that no sales occurred during time periods when the concession was contractually required to be open and operating. The lack of support for accounting periods with no sales increases the risk of lost revenue. Three vendors reported no sales and, therefore, remitted no payments to the Division for 7 monthly accounting periods, with 1 vendor reporting no sales for 4

consecutive months and 1 vendor reporting no sales for 2 consecutive months.

RECOMMENDATION

We recommend that the Division establish controls over the collection of concession, lease, and operating agreement revenue and the assessment and collection of late fees.

**AGENCY
PRELIMINARY
RESPONSE**

DNR provided us with the following response:

DNR agrees with the recommendation. Pertinent DNR staff have completed training on invoicing through MiCaRS. DNR staff will process invoices for payments and late fees with collections remitted to the DNR cashier office in Lansing. DNR will ensure revenue collection aligns with the information stored in Microsoft Lists.

FINDING 7

Valuable consideration should be quantified.

The Division did not quantify valuable consideration for lease agreements to help ensure it received sufficient benefit from lessees.

Parks and Recreation policy 1.9, Lease Administration, states lease agreements must specify receipt of valuable consideration, which can be monetary, goods and services, or stewardship (mission related) hours, and valuable consideration must be quantified. The Division must be able to demonstrate the agreed-upon benefit.

We sampled 21 of 210 lease agreements requiring valuable consideration in exchange for the use of property without rental fee or charge to the lessee. For 20 (95%) of the 21 lease agreements, the Division did not quantify consideration, such as:

- The value of maintenance, operations, and renovations to boating access sites the lessee performed.
- The lessee's costs for utilities, operations, and general maintenance made to leased buildings.

The Division informed us it did not have a process in place to monitor and quantify valuable consideration received for lease agreements.

RECOMMENDATION

We recommend that the Division quantify valuable consideration for lease agreements to help ensure it received sufficient benefit from lessees.

AGENCY PRELIMINARY RESPONSE

DNR provided us with the following response:

DNR agrees with the recommendation. For context, most leases for which valuable consideration was not identified were leases with local municipalities to operate and maintain recreational facilities, including in-kind contributions to undertake those activities. That said, DNR has updated its process to ensure that valuable consideration is expressly provided in every lease document.

OBSERVATION 1

Communication regarding new recreational opportunities could be improved.

The Division should consider improving its policies and procedures to facilitate communication of new concession, lease, and operating agreement ideas between park staff and the Innovations Team. Although not every suggestion aligns with DNR's mission and there is no stated requirement for park staff to communicate ideas to the Innovations Team, doing so could lead to increased recreational opportunities for the public and increased revenue for the State. Also, DNR may benefit from fostering inclusion among its park employees.

We analyzed survey responses from 53 State park managers and supervisors. We also analyzed the activities tracked by the Innovations Team and noted:

- a. 10 (19%) of 53 State park managers or supervisors had ideas for new agreements such as park stores, bike rentals, and touring concessions; however, they did not provide those ideas to the Innovations Team.
- b. 2 (4%) of 53 State park supervisors suggested agreement opportunities to the Innovations Team, but they indicated the Innovations Team did not communicate the research results back to them. The suggestions included adding park stores and water parks to the 2 parks.

After our review, the Division informed us a second position was added to divide the duties of the concession and lease manager including communications between the Innovations Team and park supervisors.

AWARDING CONCESSIONS, LEASES, AND OPERATING AGREEMENTS

BACKGROUND

The Division administers concession contracts, leases, and operating agreements for the use of land or facilities on State parks.

Public Act 451 of 1994 defines a concession contract as an agreement between the DNR and a person to provide services or recreational activities for public use. Concession contracts are awarded through a competitive bidding process for a term of not more than 7 years, or 15 years if the Division determines a concession requires a capital investment in which reasonable financing or amortization necessitates a longer term.

Leases are a conveyance, by DNR to a person, to possess a portion of the State's interest in land under specific terms and for valuable consideration during the period stipulated. Leases are not required to follow the competitive bidding process.

Operating agreements are used when the Division is approached with a request for the use of State land for a service or activity, but the agreement does not grant exclusive rights. Operating agreements do not follow the competitive bidding process.

See the agency description on page 34 for examples of each type.

AUDIT OBJECTIVE

To assess the effectiveness of the Division's efforts to award State park concession, lease, and operating agreement contracts in accordance with applicable requirements.

CONCLUSION

Effective.

FACTORS IMPACTING CONCLUSION

- The Division appropriately used competitive bidding processes for new concession opportunities.
- The Division used an appropriate contract length for all 37 (100%) agreements tested.
- Reportable condition related to improved concession awarding process (Finding 8).

FINDING 8

Improvements over the concession contract awarding process needed.

The Division should improve its internal control and documentation over the concession contract awarding process and better define its policy for selecting the type of agreement to be used. This would help ensure bids are objectively evaluated and contracts are awarded in compliance with applicable requirements.

Section 324.503(15) of the *Michigan Compiled Laws* outlines requirements regarding contract length. This Section also allows DNR to lease lands owned or controlled by the department. Further, Parks and Recreation policy 1.3, Concession and Vending Operation, requires signatures by the concessionaire and the Division.

Our review of 10 sampled concession contracts disclosed:

- a. The Division did not always award contracts in accordance with applicable requirements of Section 324.503 of the *Michigan Compiled Laws* or with Parks and Recreation policy. We noted:
 - (1) For 1 (10%) of the 10 contracts, a lease was issued without documentation as to why that agreement type was used. The Division informed us its interpretation of Section 324.503(15) of the *Michigan Compiled Laws* allows it to award a lease for 20 years rather than a concession contract.
 - (2) One (10%) of the 10 contracts was not signed by both parties until after our review. We noted another example of this while performing our contract monitoring review. The Division signed the contract after the concession's first season of operations.
- b. The Division did not always document support for its decisions for awarding concession contracts. We noted:
 - (1) Two (20%) of the 10 contracts were awarded to a bidder who did not receive the highest bid score.
 - (2) The Division was unable to provide documentation to support its determination that 2 (20%) of the 10 bids met the minimum requirements.
 - (3) The Division had inconsistencies in its bid scoring process. Four (67%) of the 6 invitations to bid with scoring documents were not consistently or appropriately scored by the Division. For example, one evaluator scored a bid 5 out of 20 points for management qualifications and experience while another evaluator scored the same bid 20 out of 20 points for that category. Although some scoring differences can be

expected, such a wide range of scores may indicate the need for a scoring rubric or other guidance.

The Division informed us it did not rely on the bid scoring documents. Instead, it documented its determination that bids met minimum requirements via e-mail and conducted meetings to discuss the evaluation criteria and determine the successful bidder. However, the Division did not maintain documentation of these meetings and has no mechanism to defend its award decisions. Also, the Division is inefficiently and ineffectively conducting a bid scoring process if those results are later disregarded.

RECOMMENDATION

We recommend that the Division improve its internal control and documentation over the concession contract awarding process and better define its policy for selecting the type of agreement to be used.

AGENCY PRELIMINARY RESPONSE

DNR provided us with the following response:

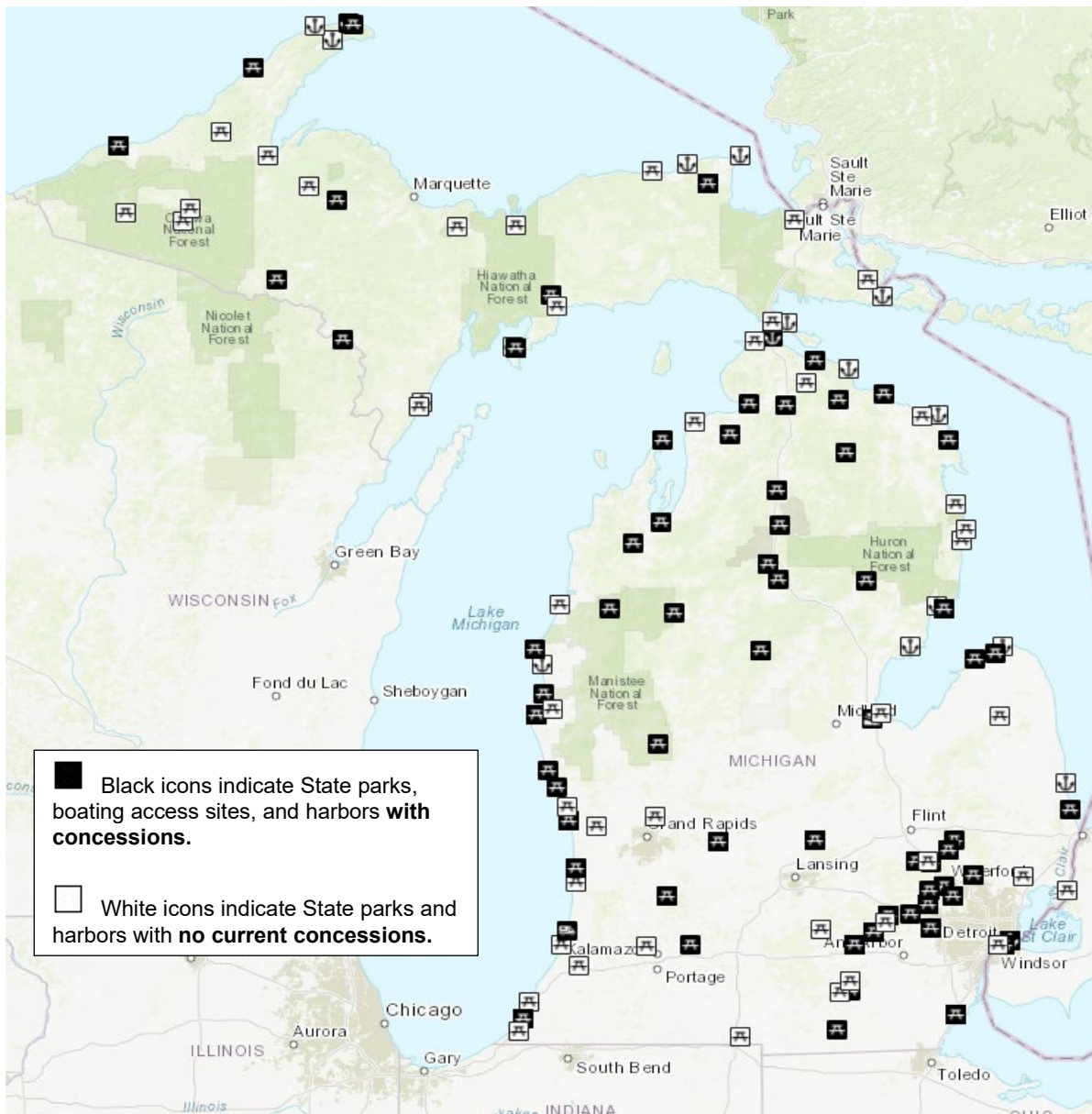
DNR agrees with the recommendation. DNR is in the process of updating its policy and process relating to selecting, scoring, and awarding concession contracts. National Park Service has a detailed process and workbooks relating to its concession scoring and awarding process, which the DNR will reference as part of these updates. Additionally, DNR will provide targeted training to pertinent field staff on the updated policy and process.

SUPPLEMENTAL INFORMATION

UNAUDITED
Exhibit 1

STATE PARK CONCESSIONS, LEASES, AND OPERATING AGREEMENTS Department of Natural Resources

Map of State Parks With Concessions
As of October 21, 2021



Link to interactive map prepared by DNR:

<https://midnr.maps.arcgis.com/apps/webappviewer/index.html?id=3f2898ac00bd4697aa996af983671e20>

Source: This exhibit was created using DNR's interactive map accessed in the link above.

STATE PARKS CONCESSIONS, LEASES, AND OPERATING AGREEMENTS
Department of Natural Resources

Photographs of Examples of Noncompliance With Contract Requirements

Brighton Recreation Stables, Brighton Recreation Area

Examples of rotted support beams and barn supports.



Brighton Recreation Area

Example of hole in the stable barn floor.



Bald Mountain Recreation Area

Example of missing AED.



Belle Isle State Park

Example of exposed electrical connections.



This exhibit continued on next page.

South Higgins Lake State Park

Examples of cluttered and unorganized concession stock rooms.



Young State Park

Example of cluttered and unorganized concession storage area visible from the main concession area.



Example of pocketknife on concession sales countertop.



This exhibit continued on next page.

Young State Park

Examples of unapproved knives being sold.

Telescoping knife.



Fixed blade knives over 3.5 inches.



Machete.



This exhibit continued on next page.

Holly Recreation Area

Example of unregistered commercial or rental watercraft.



Warren Dunes State Park

Example of non-Coast Guard approved floatation devices.



Young State Park

Example of unbundled wood for sale.



Petoskey State Park

Example of unbundled wood for sale.



Source: Photographs taken by OAG staff during site visits to State parks.

AGENCY DESCRIPTION

The Division manages 103 State parks, recreation areas, and scenic sites, with 54 of them operating one or more concessions. The Division also administers 96 harbors, 1,100 boating access sites, and 12,500 miles of trails with more than 1,200 leases and nonexclusive operating agreements. The Division enters into agreements to acquire, protect, and preserve the natural and cultural features of Michigan's unique resources and to provide access to land- and water-based recreation and educational opportunities. In fiscal years 2019 and 2020, DNR had agreement revenue totaling \$1.8 million and \$1.4 million, respectively. From October 1, 2020 through June 30, 2021, DNR had \$0.8 million revenue earned from agreements.

DNR enters into agreements for various goods and services including:

Concessions

Park stores
Firewood vending
Ice vending
Water slides

Operating Agreements

Livery
Equestrian Service
Boat repair services
Recreational vehicle rental

Leases

Boating access sites
Dry hydrants
Trail maintenance

AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

AUDIT SCOPE

To examine the records and processes related to State park agreements. 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As part of the audit, we considered the five components of internal control (control environment, risk assessment, control activities, information and communication, and monitoring activities) relative to the audit objectives and determined all components were significant.

PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered October 1, 2018 through July 31, 2021.

METHODOLOGY

We conducted a preliminary survey to gain an understanding of the Division's operations, activities, and procedures to establish our audit objectives and methodology. During our preliminary survey, we:

- Interviewed Division management and staff to obtain an understanding of their roles and responsibilities.
- Reviewed applicable State laws and procedures.
- Obtained an understanding of CRS.
- Analyzed the Division's agreement records as of April 15, 2021.
- Analyzed the Division's revenue recorded in CRS between October 1, 2018 and March 31, 2021.
- Reviewed the process for awarding concession contracts between October 1, 2018 and April 15, 2021.
- Performed limited preliminary testing of concession contracts awarded between October 1, 2018 and April 15, 2021.
- Performed a cursory review of violation notices issued by the Division.

* See glossary at end of report for definition.

OBJECTIVE 1

To assess the sufficiency of the Division's efforts to monitor State park concessions, leases, and operating agreements.

To accomplish this objective, we:

- Randomly and judgmentally sampled 37 of 2,646 agreements active during the audit period to ensure required forms were obtained and met the minimum contractual requirements, inspections were completed, and violation notices were sufficient. There were some duplicate agreements among the 2,646.
- Surveyed 89 managers and supervisors of 99 State parks, recreation areas, and scenic sites to:
 - Identify agreements active during the audit period that were not tracked on the central tracking spreadsheet.
 - Identify the process for initiating a new agreement.
 - Identify the process State parks use to resolve contract violations.
 - Evaluate State park satisfaction with agreement operators.
- Judgmentally sampled 14 of 99 State parks and recreation areas to perform site visits to observe whether the operators of agreements active during the audit period complied with contractual obligations such as safety requirements, approved items lists, and cleanliness guidelines.
- Reviewed the appropriateness of access rights for the 13 active CRS users with privileged access as of August 5, 2021.
- Randomly sampled 43 of 1,499 CRS users with nonprivileged access as of August 5, 2021 to review the appropriateness of access rights.

Our random samples were selected to eliminate any bias and enable us to project the results to the populations. For our judgmental samples, we could not project the results to the respective populations.

OBJECTIVE 2

To assess the sufficiency of the Division's efforts to maximize revenue or obtain valuable consideration from concessions, leases, and operating agreements.

To accomplish this objective, we:

- Observed the Division's weekly mail opening and bank deposit procedures.
- Randomly and judgmentally sampled 40 of 2,646 agreements active during the audit period and reviewed 102 payments to determine whether:
 - Vendors submitted payments to the State based on the amounts specified in the contracts.
 - Vendors submitted payments on time.
 - Vendors maintained appropriate accounting records.
 - The Division assessed late fees or contract violations appropriately.
 - The Division tracked all payments appropriately.
 - The Division certified shift reports for all payments.

There were some duplicate agreements among the 2,646.

- Analyzed the dollar ranges of contracts having fee structures based on percentage of sales.
- Randomly sampled 21 of 210 lease agreements with terms other than percentage of sales fees or annual fees open any time between October 1, 2018 and April 15, 2021 to determine whether DNR obtained valuable consideration.
- Reconciled CRS agreement revenue with SIGMA revenue from October 1, 2018 through June 30, 2021 to verify the accuracy of the CRS reports used by the concession and lease manager.
- Interviewed Innovations Team staff to obtain an understanding of how new agreements are created.

Our random samples were selected to eliminate any bias and enable us to project the results to the populations. For our judgmental samples, we could not project the results to the respective populations.

OBJECTIVE 3

To assess the effectiveness of the Division's efforts to award State park concession, lease, and operating agreement contracts in accordance with applicable requirements.

To accomplish this objective, we:

- Randomly and judgmentally sampled 10 of 55 concession contracts awarded between October 1, 2018 and April 15, 2021 to determine whether the bidding process was followed and the appropriate agreement type was used.
- Randomly sampled 16 of 159 leases and operating agreements awarded between October 1, 2018 and April 15, 2021 to determine whether an operating agreement was initiated rather than a lease or concession contract.

Our random samples were selected to eliminate any bias and enable us to project the results to the populations. For our judgmental samples and for our random and judgmental samples, we could not project the results to the respective populations.

CONCLUSIONS

We base our conclusions on our audit efforts and any resulting material conditions or reportable conditions.

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve State government operations. Consequently, we prepare our performance audit reports on an exception basis.

AGENCY RESPONSES

Our audit report contains 8 findings and 8 corresponding recommendations. DNR's preliminary response indicates agreement with all of the recommendations.

The agency preliminary response following each recommendation in our report was taken from the agency's written comments and oral discussion at the end of our fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require an audited agency to develop a plan to comply with the recommendations and to submit it to the State Budget Office upon completion of an audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, 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.

SUPPLEMENTAL INFORMATION

Our audit report includes supplemental information presented as Exhibits 1 and 2. Our audit was not directed toward expressing a conclusion on Exhibit 1. The information in Exhibit 2 was used to support Finding 1 and our conclusion on Objective 1.

GLOSSARY OF ABBREVIATIONS AND TERMS

access controls	Controls that protect data from unauthorized modification, loss, or disclosure by restricting access and detecting inappropriate access attempts.
AED	automated external defibrillator.
agreements	Concession contracts, leases, or operating agreements.
Central Reservation System (CRS)	The System for recording concession, lease, and operating agreement payments received from vendors.
concession contract	An agreement between the department and a person under terms and conditions specified by the department to provide services or recreational opportunities for public use. This contract grants exclusive rights to provide the services.
COVID-19	The disease caused by a new coronavirus called SARS-CoV-2. It is a potentially severe illness often characterized by fever, coughing, and shortness of breath. The World Health Organization learned of the virus in December 2019.
DNR	Department of Natural Resources.
friends group	Volunteers who take part in activities to help clean and manage State parks.
internal control	The plan, policies, methods, and procedures adopted by management to meet its mission, strategic plan, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes the systems for measuring, reporting, and monitoring program performance. Internal control serves as a defense in safeguarding assets and in preventing and detecting errors; fraud; violations of laws, regulations, and provisions of contracts and grant agreements; or abuse.
lease	A conveyance by the department to a person of a portion of the State's interest in land under specific terms and for valuable consideration, thereby granting to the lessee the possession of that portion conveyed during the period stipulated.

material condition	A matter that, in the auditor's judgment, is more severe than a reportable condition and 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. Our assessment of materiality is in relation to the respective audit objective.
MiCaRS	Michigan Cashiering and Receivable System.
observation	A commentary highlighting certain details or events that may be of interest to users of the report. An observation may not include all of the attributes (condition, effect, criteria, cause, and recommendation) presented in an audit finding.
operating agreement	An agreement used to specify the terms and conditions when the Department is approached with a request for the use of State land for a service or activity. This does not grant exclusive rights to provide the services or activity.
performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision-making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.
principle of least privilege	The practice of limiting access to the minimal level that will allow normal functioning. Applied to employees, the principle of least privilege translates to giving people the lowest level of user access rights they can have and still do their jobs. The principle is also applied to things other than people, including programs and processes.
privileged access	Extensive system access capabilities granted to persons responsible for maintaining system resources. This level of access is considered high risk and must be controlled and monitored by management.
reportable condition	A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: a deficiency in internal control; noncompliance with provisions of laws, regulations, contracts, or grant agreements; opportunities to improve programs and operations; or fraud.

segregation of duties	Separation of the management or execution of certain duties or areas of responsibility to prevent or reduce opportunities for unauthorized modification or misuse of data or service; also known as separation of duties.
Statewide Integrated Governmental Management Applications (SIGMA)	The State's enterprise resource planning business process and software implementation that support budgeting, accounting, purchasing, human resource management, and other financial management activities.
valuable consideration	The receipt of money, goods, services, or mission-related stewardship hours.



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