

## EXECUTIVE DIGEST

# DEPARTMENT OF NATURAL RESOURCES

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### INTRODUCTION

This report contains the results of our financial audit\*, including the provisions of the Single Audit Act, of the Department of Natural Resources (DNR) for the period October 1, 1995 through September 30, 1997.

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### AUDIT PURPOSE

This financial audit of DNR was conducted as part of the constitutional responsibility of the Office of the Auditor General and is required on a biennial basis by Act 251, P.A. 1986, to satisfy the requirements of the Single Audit Act of 1984 and federal Office of Management and Budget Circular A-128, *Audits of State and Local Governments*.

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### BACKGROUND

DNR's mission is to conserve, protect, and manage the State's natural resources for the use and enjoyment of current and future generations.

DNR, originally established by Act 17, P.A. 1921 (Sections 299.1 - 299.6 of the *Michigan Compiled Laws*), was re-established by Act 451, P.A. 1994 (Sections 324.101 - 324.9010 of the *Michigan Compiled Laws*). DNR operates under the direction of the Natural Resources Commission. The seven members of the Commission are appointed by the Governor, with the advice and consent of the Senate, and serve four-year

terms. The Commission appoints the director who carries

out DNR policy and program development under the overall direction of the Commission.

On August 1, 1995, the Governor issued Executive Order 1995-18, which divided DNR into two departments: DNR and the Department of Environmental Quality (DEQ). The Executive Order took effect on October 1, 1995 and transferred all the statutory authority, powers, duties, functions, and responsibilities for environmental regulation from DNR to DEQ.

DNR is internally divided into two major program areas: resource management and administrative services. Both of these major program areas participate in managing federal grants. DNR's financial and administrative operations are concentrated under the administrative services program area.

DNR's general operations are accounted for in the State's General Fund. DNR administers conservation and recreation related special revenue funds, a capital projects fund, and enterprise funds. As of September 30, 1997, DNR had approximately 1,800 full-time employees, and its General Fund expenditures and operating transfers out and special revenue fund expenditures for fiscal year 1996-97 were approximately \$229.3 million.

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**AUDIT OBJECTIVES  
AND CONCLUSIONS**

**Audit Objective:** To assess the adequacy of DNR's internal control structure\*, including applicable administrative controls related to the management of federal financial assistance programs.

**Conclusion:** Our assessment of DNR's internal control structure disclosed one material weakness\*:

- DNR had not established proper internal controls over federal grant accounting and federal financial reporting. In addition, DNR did not maintain complete documentation and accounting records to support the schedule of federal financial assistance and certain financial reports submitted to federal agencies. (Finding 1)

Our assessment also disclosed reportable conditions\* involving motor vehicle permits and the Parks and Recreation Division payroll cost distribution (Findings 2 and 3).

In addition, our assessment indicated that DNR was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.

**Audit Objective:** To assess DNR's compliance with both State and federal laws and regulations that could have a material effect on DNR's financial statements, its financial schedules, or any of its major federal financial assistance programs.

**Conclusion:** Our assessment of compliance with laws and regulations did not disclose any instances of noncompliance that could have a material effect on DNR's financial statements, its financial schedules, or any of its major federal financial assistance programs. However,

our assessment disclosed reportable conditions related to post-completion inspections and subrecipient monitoring (Findings 4 and 5).

**Audit Objective:** To audit DNR's financial statements and schedules as of and for the fiscal years ended September 30, 1997 and September 30, 1996.

**Conclusion:** We expressed an unqualified opinion on DNR's financial statements and schedules. However, our audit disclosed a reportable condition related to federal revenue from Schools and Roads grants (Finding 6).

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**AUDIT SCOPE**

Our audit scope was to examine the financial and other records of the Department of Natural Resources for the period October 1, 1995 through September 30, 1997. Our audit was conducted in accordance with generally accepted auditing standards and *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.

This audit does not include the two enterprise funds: the Department of Natural Resources Magazine Fund, which we audit separately, and the Mackinac Island State Park Commission, which is audited annually by a public accounting firm.

Our audit objective for the assessment of the internal control structure included an evaluation of DNR's implementation of the requirements for establishing and maintaining systems of internal accounting and administrative control, as set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws*.

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**AGENCY RESPONSES  
AND PRIOR AUDIT  
FOLLOW-UP**

Our report contains 6 findings and 8 corresponding recommendations. DNR's preliminary response indicates that it agrees with all 8 recommendations.

DNR had complied with 14 of the 15 prior audit recommendations included within the scope of our current audit. We repeated the other prior audit recommendation in this report.