

FINANCIAL AUDIT
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT
OF THE

DEPARTMENT OF AGRICULTURE

October 1, 1998 through September 30, 2000

EXECUTIVE DIGEST

DEPARTMENT OF AGRICULTURE

INTRODUCTION

This report contains the results of our financial audit*, including the provisions of the Single Audit* Act, of the Department of Agriculture for the period October 1, 1998 through September 30, 2000.

AUDIT PURPOSE

This financial audit of the Department 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 Amendments of 1996 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

BACKGROUND

The Department of Agriculture's mission* is to promote and protect the agricultural interests of the people of the State of Michigan. A five-member Commission of Agriculture is responsible for the general administration of the Department, including the appointment of the director. The Governor appoints the members of the Commission, with the advice and consent of the Senate, for four-year terms.

The Department's Finance and Technology Division is responsible for the Department's accounting functions and financial reporting. Responsibilities related to

* See glossary at end of report for definition.

administration of the Department's federal grants are shared by the operational divisions.

The Department's net expenditures and operating transfers out for the fiscal years ended September 30, 2000 and September 30, 1999 were \$82.3 million and \$70.8 million, respectively. As of September 30, 2000, the Department had 801 employees, of which 63 were seasonal employees.

AUDIT OBJECTIVES
AND CONCLUSIONS

Audit Objective: To audit the Department's financial schedules and to examine the schedule of expenditures of federal awards in relation to the Department's financial schedules for the fiscal years ended September 30, 2000 and September 30, 1999.

Conclusion: We expressed an unqualified opinion* on the Department's financial schedules. In addition, we expressed an unqualified opinion on the Department's schedule of expenditures of federal awards in relation to the financial schedules taken as a whole.

Audit Objective: To assess and report on the Department's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules, and on its internal control* over financial reporting, based on our audit of the financial schedules.

Conclusion: Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial schedules. Also, our assessment of internal control

* See glossary at end of report for definition.

over financial reporting did not disclose any material weaknesses*. However, we identified reportable conditions* related to internal audit, cash management, procurement card* usage, encumbrances, and controls over Michigan Administrative Information Network* (MAIN) user access (Findings 1 through 5).

In addition, our assessment indicated that the Department was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control. However, we identified noncompliance with the requirements set forth in Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws* related to internal audit (Finding 1).

Audit Objective: To assess and report on the Department's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with OMB Circular A-133.

Conclusion: We issued an unqualified opinion on the Department's compliance with requirements applicable to each major federal program. However, our assessment disclosed instances of noncompliance related to personnel-payroll cost distributions and cash management that are required to be reported in accordance with OMB Circular A-133 (Findings 6 and 7). **Also, our assessment of internal control over compliance applicable to each major federal program did not disclose any material weaknesses.** We did identify reportable conditions related to personnel-payroll cost distributions, cash management, and procurement card usage (Findings 6 through 8).

* See glossary at end of report for definition.

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Department of Agriculture for the period October 1, 1998 through September 30, 2000. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

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

Our audit report contains 6 findings and 6 corresponding recommendations. The Department's corrective action plan indicates that it agrees with the recommendations and plans to implement them.

As disclosed in the Department's summary schedule of prior audit findings, the Department fully corrected 5 of the 8 prior Single Audit findings and did not correct or partially corrected 3 findings. Two prior recommendations are repeated in this audit report (Findings 2 and 3).

June 15, 2001

Mr. Jordan B. Tatter, Chairperson
Commission of Agriculture
and
Mr. Dan Wyant, Director
Department of Agriculture
Ottawa Building
Lansing, Michigan

Dear Mr. Tatter and Mr. Wyant:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Agriculture for the period October 1, 1998 through September 30, 2000.

This report contains our executive digest; description of agency; audit objectives and conclusions, audit scope, and agency responses and prior audit follow-up; schedule of findings and questioned costs; and independent auditor's reports on the financial schedules, on compliance and on internal control over financial reporting, and on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133. This report also contains the Department of Agriculture financial schedules and notes to the financial schedules, the schedule of expenditures of federal awards, other schedules, and a glossary of acronyms and terms.

Our findings and recommendations are contained in Section II and Section III of the schedule of findings and questioned costs. The agency preliminary responses are contained in the corrective action plan. 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 Agriculture was created by Act 13, P.A. 1921 (Sections 285.1 - 285.7 of the *Michigan Compiled Laws*). The Department's mission is to promote and protect the agricultural interests of the people of the State of Michigan.

A bipartisan five-member Commission of Agriculture is responsible for the general administration of the Department, including the appointment of the director who serves at the pleasure of the Commission. The Governor appoints the members of the Commission, with the advice and consent of the Senate, for four-year terms.

The Upper Peninsula State Fair Board and the Soil Conservation Committee serve in an advisory capacity to the Commission of Agriculture. Also, the Office of the Racing Commissioner is located within the Department. The Michigan Family Farm Development Authority is no longer active; however, the remaining assets and liability transactions related to the Authority are accounted for by the Department. The activities of the Michigan State Fair and Exposition Center are accounted for in the General Fund and are reported on and audited separately by the Office of the Auditor General.

The Department's Finance and Technology Division is responsible for the Department's financial transactions, purchasing and accounting functions, financial reporting, budgeting, industry audit, and technology services. Responsibilities related to administration of the Department's federal grants are shared by the operational divisions.

The Department's net expenditures and operating transfers out for the fiscal years ended September 30, 2000 and September 30, 1999 were \$82.3 million and \$70.8 million, respectively. As of September 30, 2000, the Department had 801 employees, of which 63 were seasonal.

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

Audit Objectives and Conclusions

Our financial audit, including the provisions of the Single Audit Act, of the Department of Agriculture had the following objectives:

1. To audit the Department's financial schedules and to examine the schedule of expenditures of federal awards in relation to the Department's financial schedules for the fiscal years ended September 30, 2000 and September 30, 1999.

We expressed an unqualified opinion on the Department's financial schedules. In addition, we expressed an unqualified opinion on the Department's schedule of expenditures of federal awards in relation to the financial schedules taken as a whole.

2. To assess and report on the Department's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules, and on its internal control over financial reporting, based on our audit of the financial schedules.

Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial schedules. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses. However, we identified reportable conditions related to internal audit, cash management, procurement card usage, encumbrances, and controls over Michigan Administrative Information Network (MAIN) user access (Findings 1 through 5).

In addition, our assessment indicated that the Department was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control. However, we identified noncompliance with the requirements set forth in Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws* related to internal audit (Finding 1).

The findings related to our assessment of compliance and internal control over financial reporting are contained in Section II of the schedule of findings and questioned costs*.

3. To assess and report on the Department's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.

We issued an unqualified opinion on the Department's compliance with requirements applicable to each major federal program. However, our assessment disclosed instances of noncompliance related to personnel-payroll cost distributions and cash management that are required to be reported in accordance with OMB Circular A-133 (Findings 6 and 7). **Also, our assessment of internal control over compliance applicable to each major federal program did not disclose any material weaknesses.** We did identify reportable conditions related to personnel-payroll cost distributions, cash management, and procurement card usage (Findings 6 through 8).

The findings related to our assessment of compliance and internal control over compliance applicable to each major federal program are contained in Section III of the schedule of findings and questioned costs.

Audit Scope

Our audit scope was to examine the financial and other records of the Department of Agriculture for the period October 1, 1998 through September 30, 2000. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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.

We considered the Department's internal control over compliance applicable to each major federal program and assessed the Department's compliance with federal laws and regulations in accordance with the Single Audit Act Amendments of 1996 and OMB

* See glossary at end of report for definition.

Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, in addition to auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. In addition, we followed up on the Department's summary schedule of prior audit findings. The Department's major federal programs are identified in Section I of the schedule of findings and questioned costs.

Agency Responses and Prior Audit Follow-Up

Our audit report contains 6 findings and 6 corresponding recommendations. The Department's corrective action plan indicates that it agrees with the recommendations and plans to implement them.

The Department's corrective action plan, which is included in this report, was prepared by the Department as required by OMB Circular A-133. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require the Department of Agriculture to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

As disclosed in the Department's summary schedule of prior audit findings, the Department fully corrected 5 of the 8 prior Single Audit findings and did not correct or partially corrected 3 findings. Two prior recommendations are repeated in this audit report (Findings 2 and 3).

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Schedules

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	Yes
Noncompliance material to the financial schedules?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, Section 510(a)?	Yes

Identification of major programs:

<i>CFDA</i> Number	Name of Federal Program
10.163	Market Protection and Promotion
66.605	Performance Partnership Grants
94.006	AmeriCorps

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as a low-risk auditee*? No

Section II: Findings Related to the Financial Schedules

FINDING (790101)

1. Internal Audit

The Department of Agriculture had not established organizational independence for its internal auditor in compliance with statutory requirements.

Section 18.1486(2) of the *Michigan Compiled Laws* states that the internal auditor shall report to and be under the general supervision of the department head. Section 18.1486(5) of the *Michigan Compiled Laws* states that each internal auditor shall adhere to appropriate professional standards in carrying out any financial or program audits or investigations. The Department's internal auditor informed us that he conducts audits in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. These standards provide that the internal auditor should be accountable to the head or deputy head of the Department and should be organizationally located outside the staff or line management function of the units under audit.

The internal auditor's position description indicated that the internal auditor reports to the Department's deputy director for 35% of his job responsibilities and reports to the director of the Finance and Technology Division for the remaining 65%. The director of the Finance and Technology Division serves as the Department's chief financial officer and is responsible for the Budget and Resource Support Section, Accounting Section, Procurement and Grants Administration Section, Office Services Section, Financial Programs and Regulation Section, and Technology Services Section. This places the internal auditor in the position of auditing the operations for which his immediate supervisor is responsible. This organizational placement could impair the internal auditor's ability to function independently and audit impartially.

* See glossary at end of report for definition.

During the audit period, the internal auditor's duties included managing the Financial Programs and Regulation Section in the Finance and Technology Division. These additional responsibilities conflicted with the internal auditor's role as an independent third party. The Department informed us that it removed these responsibilities and changed reporting relationships to create organizational independence after the end of the audit period.

RECOMMENDATION

We recommend that the Department establish organizational independence for its internal auditor in compliance with statutory requirements.

FINDING (790102)

2. Cash Management

The Department's internal control did not provide for compliance with State and federal cash management standards.

The Department's drawdowns of federal funds that are not subject to the federal Cash Management Improvement Act are to be made in accordance with federal general cash management requirements, Section 18.1395(5) of the *Michigan Compiled Laws*, and Department of Management and Budget (DMB) Administrative Guide procedure 1210.06. The *Michigan Compiled Laws* and DMB standards require the Department to use State General Fund/general purpose appropriations only after the available restricted funds have been used. The federal and DMB standards also require the Department to minimize the time elapsing between the transfer of funds from the U.S. Department of Treasury and the pay out of funds by the State.

We examined the drawdowns of the 3 major federal programs to assess the time elapsed between when the Department made program expenditures and when the funds were received from the grantor:

- a. We reviewed the 1 and the 3 AmeriCorps (*CFDA* No. 94.006) drawdowns made during fiscal years 1999-2000 and 1998-99, respectively. The Department did not draw any fiscal year 1999-2000 funds until December 2000. The AmeriCorps Program expended approximately \$190,000 during the

fiscal year. We estimated that the State lost interest income of approximately \$7,800 on the draw based on the State Treasurer's Common Cash rate of return.

- b. We reviewed the 9 and the 8 Market Protection and Promotion (CFDA No. 10.163) - Pesticide Data Program (PDP) drawdowns made during fiscal years 1999-2000 and 1998-99, respectively.

The PDP Cooperative Agreement requires the Department to submit the request for advance or reimbursement (SF-270) or drawdown request for each month of the fiscal year. The PDP Cooperative Agreement for fiscal year 1999-2000 was approved by the federal agency on December 10, 1999. The Department began incurring PDP expenditures in October 1999 but did not complete the first drawdown until January 14, 2000. The Department also did not complete drawdowns in June, August, or September 2000. We determined that the PDP Cooperative Agreement for fiscal year 1998-99 was approved by the federal agency on January 20, 1999. The Department began incurring PDP expenditures in October 1998 but did not complete the first drawdown until March 14, 1999. We estimated that the State lost interest income of \$2,792 and \$2,566 in fiscal years 1999-2000 and 1998-99, respectively, based on the State Treasurer's Common Cash rate of return.

- c. We reviewed the 7 and the 6 Performance Partnership Grant (CFDA No. 66.605) drawdowns made during fiscal years 1999-2000 and 1998-99, respectively. The days elapsed between incurring expenditures and requesting drawdown of funds ranged from 30 to 91 days. We estimated that the State lost interest income of \$7,010 and \$4,795 in fiscal years 1999-2000 and 1998-99, respectively, based on the State Treasurer's Common Cash rate of return.

In response to a similar finding in our prior audit, the Department indicated that it agreed and would comply.

RECOMMENDATION

WE AGAIN RECOMMEND THAT THE DEPARTMENT ENHANCE ITS INTERNAL CONTROL TO PROVIDE FOR COMPLIANCE WITH STATE AND FEDERAL CASH MANAGEMENT STANDARDS.

FINDING (790103)

3. Procurement Card Usage

The Department's internal control did not ensure that procurement card users complied with DMB and Department of Agriculture policies and procedures.

The Department used procurement cards to make purchases totaling approximately \$1.1 million in fiscal year 1999-2000 and \$0.8 million in fiscal year 1998-99. Our review of 91 transactions disclosed the following instances of noncompliance with policies and procedures:

- a. Original merchandise receipts were not retained or were incomplete for 11 transactions totaling \$10,668 and 11 transactions totaling \$7,050 in fiscal years 1999-2000 and 1998-99, respectively. As a result, we could not verify the appropriateness of the purchases. The Program's Cardholder Manual and the Department of Agriculture Procedure Manual require that card users obtain and retain merchandise receipts. After bringing this to the Department's attention, Department personnel contacted one of the vendors and obtained copies of receipts for 9 of the transactions totaling \$8,787 and 6 of the transactions totaling \$5,623 for fiscal years 1999-2000 and 1998-99, respectively. We determined that these purchases were for State purposes.
- b. For 2 transactions, the purchasers split the purchase into two or more charges to avoid exceeding the \$1,000 individual transaction limit, and for 3 transactions, the purchasers split the purchase into two charges to avoid the \$2,500 individual transaction limit. The Program's Cardholder Manual prohibits splitting charges in order to avoid exceeding the individual transaction limit. The Department increased its daily individual transaction limit from \$1,000 to \$2,500 effective November 22, 1999.
- c. Two transactions totaling \$2,271 were for printing services that are available on a Statewide contract. The Program's Cardholder Manual and the Department of Agriculture Procedure Manual prohibit using the procurement card to purchase goods or services that are available on a Statewide contract.
- d. Transaction logs and/or billing details did not reflect supervisory approval for 13 transactions totaling \$10,826 and 10 transactions totaling \$5,970 in fiscal

years 1999-2000 and 1998-99, respectively. The Department of Agriculture Procedure Manual requires that purchases be approved by a supervisor.

In response to a similar finding in our prior audit, the Department indicated that it agreed and would comply.

RECOMMENDATION

WE AGAIN RECOMMEND THAT THE DEPARTMENT ENHANCE ITS INTERNAL CONTROL TO ENSURE THAT PROCUREMENT CARD USERS COMPLY WITH DMB AND DEPARTMENT OF AGRICULTURE POLICIES AND PROCEDURES.

FINDING (790104)

4. Encumbrances

The Department did not establish encumbrances in accordance with DMB Administrative Guide procedure 1210.27.

DMB Administrative Guide procedure 1210.27 states that contracts must have been signed by all contracting parties before September 16 and that undated signatures result in the contract being ineligible for carry-forward. In addition, the procedure states that contracts between State departments may qualify for carry-forward if the contracts are authorized in writing by the Office of Financial Management (OFM) and they meet other requirements of the procedure.

The Department established 2 encumbrances totaling \$154,081 and 3 encumbrances totaling \$522,499 based on contracts with undated signatures in fiscal years 1999-2000 and 1998-99, respectively. Additionally, the Department did not have the required written authorization from OFM for these contracts. The contracts were between the Department and another State department.

Recording encumbrances that do not meet specified criteria improperly reserves fund balance and reduces lapses to the General Fund at year-end.

RECOMMENDATION

We recommend that the Department establish encumbrances in accordance with DMB Administrative Guide procedure 1210.27.

FINDING (790105)

5. Controls Over MAIN User Access

The Department needs to strengthen its controls over Michigan Administrative Information Network (MAIN) user access by establishing and documenting compensating controls for incompatible user class combinations and providing written affirmation of the internal control risk to DMB.

The MAIN Financial Administration and Control System (FACS) Security Manual requires that agencies provide OFM with written affirmation stating that they understand the internal control risks associated with the identified user class combinations and that they take full responsibility for maintaining effective compensating controls. In addition, each agency must provide OFM with documentation of its compensating controls.

Our review of MAIN user classes disclosed that 10 users had incompatible user class combinations during fiscal year 1999-2000. The Department had not identified and documented compensating controls in place for these user class combinations. Additionally, the Department had not submitted the required written affirmation to OFM. We did not note any inappropriate transactions entered by any of these users in our test of financial transactions. After completion of our fieldwork, the Department informed us that it researched the nature of the incompatible user class combinations and concluded that 7 of the 10 users had other controls in place to mitigate the risks associated with the combinations.

RECOMMENDATION

We recommend that the Department strengthen its controls over MAIN user access by establishing and documenting compensating controls for incompatible user class combinations and providing written affirmation of the internal control risk to DMB.

The status of the findings related to the financial schedules that were reported in prior Single Audits is disclosed in the summary schedule of prior audit findings.

Section III: Findings and Questioned Costs Related to Federal Awards

FINDING (790106)

6. Personnel-Payroll Cost Distributions

U.S. Department of Agriculture	CFDA: 10.163 Market Protection and Promotion
Cooperative Agreement Number: 12-25-A-3741	Award Period: 10/1/98 - 9/30/99
	Questioned Costs: \$4,840

U.S. Department of Agriculture	CFDA: 10.163 Market Protection and Promotion
Cooperative Agreement Number: 12-25-A-3822	Award Period: 10/1/99 - 9/30/2000
	Questioned Costs: \$2,577

The Department had not established controls to ensure that personnel-payroll cost distributions to the Market Protection and Promotion - Pesticide Data Program (PDP) were accurate and properly documented in accordance with federal requirements.

OMB Circular A-87, Attachment B, requires employee salaries and wages that are chargeable to more than one grant program or other cost objective to be supported by personnel activity reports or equivalent documentation. Circular A-87 states that the personnel activity reports must reflect after-the-fact distribution of the actual activity of each employee, account for the total activity for which the employee is compensated, be prepared at least monthly and coincide with one or more pay periods, and be signed by the employee. Circular A-87 also states that payments for unused leave when an employee terminates are allowable in the year of payment provided they are allocated as a general administrative expense to all activities of the governmental unit. The Circular A-87 implementation guide further explains that leave payoffs must be treated as an indirect cost.

Our review of personnel-payroll cost distributions disclosed:

- a. The Department did not ensure that employees who were charged to more than one cost objective prepared biweekly time and activity reports to document the actual hours charged to PDP. Five of the 10 time

and attendance reports that we reviewed for the employees charged to more than one cost objective did not include the actual number of hours worked on PDP. Expenditures for these sample items totaled \$2,125 and \$4,334 in fiscal years 1999-2000 and 1998-99, respectively. Based on a fiscal year with 26 pay periods, these known compliance errors could result in likely compliance errors of approximately \$55,250 and \$112,700 in fiscal years 1999-2000 and 1998-99, respectively.

- b. The personnel-payroll cost distribution for 1 employee reviewed did not agree with the hours reported on the employee's time and attendance report. The expenditure for this sample item totaled \$452 in fiscal year 1999-2000.
- c. The Department charged a \$506 annual leave payoff expenditure as a direct cost to the PDP grant in fiscal year 1998-99.

RECOMMENDATION

We recommend that the Department establish controls to ensure that personnel-payroll cost distributions to PDP are accurate and properly documented in accordance with federal requirements.

FINDING (790107)

7. Cash Management

U.S. Department of Agriculture	CFDA: 10.163 Market Protection and Promotion
Cooperative Agreement Number: 12-25-A-3741	Award Period: 10/1/98 - 9/30/99
	Questioned Costs: \$0

U.S. Department of Agriculture	CFDA: 10.163 Market Protection and Promotion
Cooperative Agreement Number: 12-25-A-3822	Award Period: 10/1/99 - 9/30/2000
	Questioned Costs: \$0

This finding is included in Section II of the schedule of findings and questioned costs (790102).

FINDING (790108)

8. Procurement Card Usage

Applicable to: All federal programs

This finding is included in Section II of the schedule of findings and questioned costs (790103).

The status of the findings related to federal awards that were reported in prior Single Audits is disclosed in the summary schedule of prior audit findings.

Independent Auditor's Report on
the Financial Schedules

March 30, 2001

Mr. Jordan B. Tatter, Chairperson
Commission of Agriculture
and
Mr. Dan Wyant, Director
Department of Agriculture
Ottawa Building
Lansing, Michigan

Dear Mr. Tatter and Mr. Wyant:

We have audited the accompanying schedule of General Fund revenue and operating transfers and the schedule of sources and disposition of General Fund authorizations of the Department of Agriculture for the fiscal years ended September 30, 2000 and September 30, 1999. These financial schedules are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial schedules based on our audit. The financial transactions of the Department are accounted for principally in the General Fund of the State of Michigan.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the accompanying financial schedules include only the revenue and operating transfers and the sources and disposition of authorizations for the Department of Agriculture's General Fund accounts, presented on the modified accrual basis of accounting. Accordingly, these financial schedules are not intended to

constitute a complete financial presentation of either the Department or the State's General Fund in accordance with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenue and operating transfers and the sources and disposition of authorizations of the Department of Agriculture for the fiscal years ended September 30, 2000 and September 30, 1999, on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 30, 2001 on our tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the Department's financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

AUDITOR GENERAL

Independent Auditor's Report on Compliance and
on Internal Control Over Financial Reporting

March 30, 2001

Mr. Jordan B. Tatter, Chairperson
Commission of Agriculture
and
Mr. Dan Wyant, Director
Department of Agriculture
Ottawa Building
Lansing, Michigan

Dear Mr. Tatter and Mr. Wyant:

We have audited the General Fund financial schedules of the Department of Agriculture for the fiscal years ended September 30, 2000 and September 30, 1999 and have issued our report thereon dated March 30, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Department's financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention

relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 1 through 5.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described in the previous paragraph is a material weakness.

This report is intended solely for the information and use of the Commission of Agriculture, the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

Independent Auditor's Report on Compliance With
Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in
Accordance With OMB Circular A-133

March 30, 2001

Mr. Jordan B. Tatter, Chairperson
Commission of Agriculture
and
Mr. Dan Wyant, Director
Department of Agriculture
Ottawa Building
Lansing, Michigan

Dear Mr. Tatter and Mr. Wyant:

Compliance

We have audited the compliance of the Department of Agriculture with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each major federal program for the fiscal years ended September 30, 2000 and September 30, 1999. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the previous paragraph that could have a direct and material effect on a major federal program occurred. An audit

includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

In our opinion, the Department of Agriculture complied, in all material respects, with the requirements referred to in the second previous paragraph that are applicable to each major federal program for the fiscal years ended September 30, 2000 and September 30, 1999. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 6 and 7.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Department's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 6 through 8.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described in the previous paragraph is a material weakness.

This report is intended solely for the information and use of the Commission of Agriculture, the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

DEPARTMENT OF AGRICULTURE
Schedule of General Fund Revenue and Operating Transfers
Fiscal Years Ended September 30

	<u>2000</u>	<u>1999</u>
REVENUE		
Horse race wagering taxes	\$ 13,818,165	\$ 13,194,805
Federal revenue	4,127,966	3,374,700
Services	1,613,884	1,591,419
Licenses and permits	8,081,249	8,063,811
Miscellaneous revenue	<u>1,891,075</u>	<u>1,922,427</u>
Total Revenue	\$ 29,532,340	\$ 28,147,163
OPERATING TRANSFERS		
Private oil overcharges	<u>789,399</u>	<u>665,836</u>
Total Revenue and Operating Transfers	<u>\$ 30,321,739</u>	<u>\$ 28,812,999</u>

The accompanying notes are an integral part of the financial schedules.

DEPARTMENT OF AGRICULTURE
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Years Ended September 30

	<u>2000</u>	<u>1999</u>
SOURCES OF AUTHORIZATIONS (Note 2)		
General purpose appropriations	\$ 62,633,900	\$ 48,887,000
Budgetary transfers in (out)	(1,250,000)	
Balances carried forward	16,485,947	9,737,378
Restricted financing sources	30,075,649	28,596,848
Less: Intrafund expenditure reimbursements	<u>(143,230)</u>	<u>(140,000)</u>
Total	<u>\$ 108,088,726</u>	<u>\$ 87,081,225</u>
DISPOSITION OF AUTHORIZATIONS (Note 2)		
Gross expenditures and operating transfers out	\$ 82,393,409	\$ 70,911,127
Less: Intrafund expenditure reimbursements	<u>(143,230)</u>	<u>(140,000)</u>
Net expenditures and operating transfers out	<u>\$ 82,536,639</u>	<u>\$ 70,771,127</u>
Balances carried forward:		
Multi-year projects	\$ 18,300,252	\$ 8,630,294
Encumbrances	1,860,771	1,875,733
Restricted revenue - not authorized	<u>5,360,679</u>	<u>5,552,969</u>
Total balances carried forward	\$ 25,521,702	\$ 16,058,996
Balances lapsed	<u>30,386</u>	<u>251,102</u>
Total	<u>\$ 108,088,726</u>	<u>\$ 87,081,225</u>

The accompanying notes are an integral part of the financial schedules.

Notes to the Financial Schedules

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the Department of Agriculture for the fiscal years ended September 30, 2000 and September 30, 1999. The financial transactions of the Department are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

The notes accompanying these financial schedules relate directly to the Department. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies, Budgeting and Budgetary Control, Pension Benefits and Other Postemployment Benefits, and Compensated Absences.

For purposes of presenting the governmental operations of the Department in the accompanying financial schedules, the operations of the Michigan State Fair and Exposition Center, which are accounted for in the State's General Fund, have been excluded from the Department's entity. Separate financial schedules are issued for the Michigan State Fair and Exposition Center and are audited by the Office of the Auditor General.

b. Basis of Accounting and Presentation

The financial schedules contained in this report are prepared on the modified accrual basis of accounting, as provided by accounting principles generally accepted in the United States of America for governmental funds. The modified accrual basis of accounting, which emphasizes the measurement of current financial resource flows, is explained in more detail in the *SOMCAFR*.

The accompanying financial schedules include only the revenue and operating transfers and the sources and disposition of authorizations for the Department of Agriculture's General Fund accounts. Accordingly,

these financial schedules are not intended to constitute a complete financial presentation of either the Department or the State's General Fund in accordance with accounting principles generally accepted in the United States of America.

Note 2 Schedule of Sources and Disposition of General Fund Authorizations

The various elements of the schedule of sources and disposition of General Fund authorizations are defined as follows:

- a. General purpose appropriations: Original appropriations and any supplemental appropriations that are financed by General Fund/general purpose revenue.
- b. Budgetary transfers in (out): Legislatively approved transfers of spending authorization between accounts within a department or between departments. These also include administrative transfers, such as entries to complete the financial closing of the State's fiscal year, that are approved by the Office of Financial Management, Department of Management and Budget. The balance in fiscal year 1999-2000 represents spending authorization transferred to Michigan State Fair and Exposition Center operating accounts.
- c. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenue - authorized, and restricted revenue - not authorized that were not spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry-forward without additional legislative authorization, except for the restricted revenue - not authorized.
- d. Restricted financing sources: Collections of restricted revenue, restricted operating transfers, and restricted intrafund expenditure reimbursements to finance programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenue - authorized or restricted revenue - not authorized.

- e. Multi-year projects: Unexpended authorizations for work projects and capital outlay projects that are carried forward to subsequent fiscal years for the completion of the projects. Examples of carry-forwards of this type are Bovine Tuberculosis Surveillance and Indemnification, Food Safety and Quality Assurance, and Migrant Labor Housing.

- f. Restricted revenue - not authorized: Revenue that, by statute, is restricted for use to a particular program or activity. However, the expenditure of the restricted revenue is subject to annual legislative appropriation. Examples of significant carry-forwards of this type are groundwater and freshwater protection fees, licensing and inspection fees, and equine development funds.

SUPPLEMENTAL FINANCIAL SCHEDULE

DEPARTMENT OF AGRICULTURE
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 1998 through September 30, 2000

For the Fiscal Year Ended September 30, 1999

Federal Agency/Program	CFDA (2) Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<u>U.S. Department of Agriculture</u>					
Direct Programs:					
Plant and Animal Disease, Pest Control, and Animal Care	10.025		\$ 37,509	\$	\$ 37,509
Market Protection and Promotion	10.163		1,059,660		1,059,660
Cooperative Forestry Assistance	10.664		218,425	925,894	1,144,319
Federal-State Inspection and Grading Service for Dairy Products	10.12-25-A-3213	(3)	21,585		21,585
Rural Development Council of Michigan	10.43-3157-6-RDP22	(3)	<u>131,112</u>		<u>131,112</u>
Total Direct Programs			<u>\$ 1,468,291</u>	<u>\$ 925,894</u>	<u>\$ 2,394,185</u>
Pass-Through Program:					
Department of Natural Resources Cooperative Forestry Assistance (Forest Stewardship)	10.664	FSP 99-43	<u>\$</u>	<u>\$ 44,278</u>	<u>\$ 44,278</u>
Total U.S. Department of Agriculture			<u>\$ 1,468,291</u>	<u>\$ 970,172</u>	<u>\$ 2,438,463</u>
<u>U.S. Environmental Protection Agency</u>					
Direct Programs:					
Great Lakes Program (Mercury Manometer Disposal)	66.469		\$	\$ 40,000	\$ 40,000
Performance Partnership Grants	66.605		643,559	124,488	768,047
Surveys, Studies, Investigations, and Special Purpose Grants	66.606			<u>30,000</u>	<u>30,000</u>
Total Direct Programs			<u>\$ 643,559</u>	<u>\$ 194,488</u>	<u>\$ 838,047</u>
Pass-Through Program:					
Department of Environmental Quality Nonpoint Source Implementation Grants (Right to Farm)	66.460	480297-98	<u>\$ 75,000</u>	<u>\$</u>	<u>\$ 75,000</u>
Total U.S. Environmental Protection Agency			<u>\$ 718,559</u>	<u>\$ 194,488</u>	<u>\$ 913,047</u>
<u>Federal Emergency Management Agency</u>					
Pass-Through Program:					
Michigan Department of State Police Hazard Mitigation Grant	83.548	1128.0004	<u>\$ 76,627</u>	<u>\$</u>	<u>\$ 76,627</u>
Total Federal Emergency Management Agency			<u>\$ 76,627</u>	<u>\$ 0</u>	<u>\$ 76,627</u>
<u>U.S. Department of Health and Human Services</u>					
Direct Programs:					
Innovative Food Safety Projects (Food Sanitation Training)	93.245		\$	\$	\$ 0
Food Sanitation Inspections	93.223-98-4011,223-99-4011	(3)	74,002		74,002
Food Safety Media Day	93.PO#99N55077	(3)	764		764
Medicated Feed Inspections	93.223-98-4025,223-99-4025	(3)	42,375		42,375
Tissue Residue Inspections	93.223-98-4010,223-99-4010	(3)	<u>16,890</u>		<u>16,890</u>
Total U.S. Department of Health and Human Services			<u>\$ 134,031</u>	<u>\$ 0</u>	<u>\$ 134,031</u>

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2000

<u>Pass-Through Identification Number</u>	<u>Directly Expended</u>	<u>Distributed to Subrecipients</u>	<u>Total Expended and Distributed</u>	<u>Total Expended and Distributed for the Two-Year Period</u>
	\$ 107,441	\$	\$ 107,441	\$ 144,950
	1,145,392		1,145,392	2,205,052
	235,644	1,154,309	1,389,953	2,534,272
	27,709		27,709	49,294
	<u>162,143</u>		<u>162,143</u>	<u>293,255</u>
	<u>\$ 1,678,329</u>	<u>\$ 1,154,309</u>	<u>\$ 2,832,638</u>	<u>\$ 5,226,823</u>
CRP Program	<u>\$</u>	<u>\$ 9,155</u>	<u>\$ 9,155</u>	<u>\$ 53,433</u>
	<u>\$ 1,678,329</u>	<u>\$ 1,163,464</u>	<u>\$ 2,841,793</u>	<u>\$ 5,280,256</u>
	\$ 23,552	\$	\$ 23,552	\$ 63,552
	835,537	268,416	1,103,953	1,871,999
	<u>33,000</u>		<u>33,000</u>	<u>63,000</u>
	<u>\$ 892,089</u>	<u>\$ 268,416</u>	<u>\$ 1,160,505</u>	<u>\$ 1,998,551</u>
C9995014-00	<u>\$ 75,000</u>	<u>\$</u>	<u>\$ 75,000</u>	<u>\$ 150,000</u>
	<u>\$ 967,089</u>	<u>\$ 268,416</u>	<u>\$ 1,235,505</u>	<u>\$ 2,148,551</u>
1128.0004, 1181.001	<u>\$ 70,410</u>	<u>\$</u>	<u>\$ 70,410</u>	<u>\$ 147,037</u>
	<u>\$ 70,410</u>	<u>\$ 0</u>	<u>\$ 70,410</u>	<u>\$ 147,037</u>
	\$ 43,000	\$	\$ 43,000	\$ 43,000
	75,376		75,376	149,378
				764
	9,384		9,384	51,758
	<u>7,073</u>		<u>7,073</u>	<u>23,963</u>
	<u>\$ 134,833</u>	<u>\$ 0</u>	<u>\$ 134,833</u>	<u>\$ 268,863</u>

DEPARTMENT OF AGRICULTURE
 Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 1998 through September 30, 2000
 Continued

<u>Federal Agency/Program</u>	<u>CFDA (2)</u> <u>Number</u>	<u>Pass-Through</u> <u>Identification</u> <u>Number</u>	<u>For the Fiscal Year Ended September 30, 1999</u>		
			<u>Directly</u> <u>Expended</u>	<u>Distributed to</u> <u>Subrecipients</u>	<u>Total Expended</u> <u>and Distributed</u>
<u>Corporation for National and Community Service</u>					
Pass-Through Program:					
Michigan Department of Career Development AmeriCorps (Groundwater Stewardship)	94.006	98-IA-006, 99-IA-005	\$ 215,273	\$	\$ 215,273
Total Corporation for National and Community Service			\$ 215,273	\$ 0	\$ 215,273
Total Expenditures of Federal Awards			\$ 2,612,781	\$ 1,164,660	\$ 3,777,441

(1) Basis of Presentation: This schedule includes the federal grant activity of the Department of Agriculture and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial schedules. The Department receives some federal grants as a subgrantee of another State department. In these cases, the transfer of financing is recorded in the accounting records as an expenditure credit. As a result, the amounts reported as expended on this schedule do not agree with the amounts reported as federal revenue in the schedule of General Fund revenue and operating transfers.

(2) CFDA is defined as *Catalog of Federal Domestic Assistance*.

(3) CFDA number not available. Number derived from federal agency number and grant or contract number, if available.

For the Fiscal Year Ended September 30, 2000

<u>Pass-Through Identification Number</u>	<u>Directly Expended</u>	<u>Distributed to Subrecipients</u>	<u>Total Expended and Distributed</u>	<u>Total Expended and Distributed for the Two-Year Period</u>
99-IA-005, 99-IA-032	\$ 190,666	\$	\$ 190,666	\$ 405,939
	<u>\$ 190,666</u>	<u>\$ 0</u>	<u>\$ 190,666</u>	<u>\$ 405,939</u>
	<u>\$ 3,041,327</u>	<u>\$ 1,431,880</u>	<u>\$ 4,473,207</u>	<u>\$ 8,250,646</u>

OTHER SCHEDULES

DEPARTMENT OF AGRICULTURE
Summary Schedule of Prior Audit Findings
As of September 30, 2000

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 1996 through September 30, 1998
Finding Number: 799901
Finding Title: Personnel and Payroll Functions
Finding: The Department of Agriculture had not developed and implemented proper internal control for Personnel-Payroll Information System for Michigan* (PPRISM)/Data Collection and Distribution System* (DCDS) functions.
Comments: Process implemented May 2000.

Audit Period: October 1, 1996 through September 30, 1998
Finding Number: 799903
Finding Title: Indirect Cost Recovery Accounting
Finding: The Department's internal control did not ensure that the Michigan Administrative Information Network (MAIN) accurately reflected the revenue received for indirect cost recovery.
Comments: Process implemented to ensure that MAIN reflects revenue received for indirect cost recovery.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 1996 through September 30, 1998
Finding Number: 799902
Finding Title: Internal Audit Function
Finding: The Department's internal auditor was not organizationally independent.

* See glossary at end of report for definition.

Comments: The internal auditor does report to the Department deputy director on all internal audit matters. The chief financial officer for the Department has no role in the audit plan development, its implementation, or resulting reports. The perceived conflict may arise because the internal auditor also has responsibility for mission work of the Department. The internal auditor performs regulatory responsibilities and provides additional program oversight in assigned areas. As such, the internal auditor reports to the chief financial officer on these programs and their operation. During December 1998, the Department reassigned the agency security administrator* responsibilities to another employee in the Finance and Technology Division while the internal auditor acts as backup. In March 2000, the manager of the Financial Programs and Regulation Section was reassigned so that he does not report to the internal auditor.

Audit Period: October 1, 1996 through September 30, 1998

Finding Number: 7999904

Finding Title: Cash Management

Finding: The Department's internal control did not provide for compliance with State and federal cash management standards.

Comments: The Department continues to work on the cash management issue. Vacancies in the accounting unit remain, creating a shortage of staff available to monitor cash management.

Audit Period: October 1, 1996 through September 30, 1998

Finding Number: 799905

Finding Title: Procurement Card Usage

Finding: The Department's internal controls did not ensure that procurement card users complied with Department of Agriculture and Department of Management and Budget policies and procedures.

Comments: In August 1999, changes to the procurement card process were communicated to the procurement card liaisons. In addition, the procurement card procedures have been revised and sent to the divisions for review. The procedures should be finalized and in

* See glossary at end of report for definition.

cardholders' hands by the end of November 2000. A cardholder training program will be implemented sometime in 2001.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

- Audit Period:** October 1, 1996 through September 30, 1998
Finding Number: 799906
Finding Title: Federal Financial Reporting
Finding: The Department did not ensure the timely submission of required federal financial reports.
Comments: Federal financial reports are now submitted on a timely basis.
- Audit Period:** October 1, 1996 through September 30, 1998
Finding Number: 799907
Finding Title: Personnel-Payroll Cost Distributions
Finding: The Department did not properly document personnel-payroll cost distributions to the Performance Partnership Grants - Pesticide Cooperative Agreement in accordance with federal requirements.
Comments: Payroll certifications are being done.
- Audit Period:** October 1, 1996 through September 30, 1998
Finding Number: 799908
Finding Title: Cooperative Forestry Assistance Grant Applications
Finding: The Department did not ensure that subrecipient applications included certifications for debarment and suspension.
Comments: Subrecipient applications now contain certifications for debarment and suspension.
- Audit Period:** October 1, 1996 through September 30, 1998
Finding Number: 799909
Finding Title: Personnel and Payroll Functions
Comments: See Finding 799901 with the findings related to the financial schedules.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 1996 through September 30, 1998

Finding Number: 799910

Finding Title: Procurement Card Usage

Comments: See Finding 799905 with the findings related to the financial schedules.

DEPARTMENT OF AGRICULTURE

Corrective Action Plan

As of April 24, 2001

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Finding Number: 790101
Finding Title: Internal Audit
Management Views: The Department of Agriculture agrees with the finding.
Corrective Action: The Department will revise the internal auditor's position description and change the reporting relationship so that the internal auditor reports directly to the executive office through the deputy director.
Anticipated Completion Date: May 2001
Responsible Individual: Keith Creagh

Finding Number: 790102
Finding Title: Cash Management
Management Views: The Department agrees with the finding.
Corrective Action: The Department has created a weekly report that allows a comparison of federal revenue to expenditures. Material variances will then be followed up by the Department's chief accountant.
Anticipated Completion Date: April 2001
Responsible Individual: Rick Harper

Finding Number: 790103
Finding Title: Procurement Card Usage
Management Views: The Department agrees with the finding.
Corrective Action: A training program is under development and material exceptions, when found, will be referred to the Department's internal auditor for follow-up.
Anticipated Completion Date: September 2001
Responsible Individual: Marcia Maxwell

Finding Number: 790104
Finding Title: Encumbrances
Management Views: The Department agrees with the finding.
Corrective Action: Effective April 2001, accounting staff will establish encumbrances for only those items that are signed and dated by applicable Department staff.
Anticipated Completion Date: April 2001
Responsible Individual: Rick Harper

Finding Number: 790105
Finding Title: Controls Over MAIN User Access
Management Views: The Department agrees with the finding.
Corrective Action: By the end of June 2001, all MAIN user classes will have been reviewed and either the Department will have removed user classes so as to have no conflict or a Department risk assessment will have been performed that describes the inherent risk, documents compensating controls, and provides written affirmation that the risk is acceptable to the Department.
Anticipated Completion Date: June 2001
Responsible Individual: Rick Harper

FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

Finding Number: 790106
Finding Title: Personnel-Payroll Cost Distributions
Management Views: The Department agrees with the finding.
Corrective Action: The Department will use the employee time and attendance report, which is signed by the employee, to distribute the actual activity of each employee who is chargeable to more than one cost objective. Further, the Department will account for the total activity for which the employee is compensated.

The Department will review its procedures and revise, as appropriate, the accounting treatment of terminal leave payoffs and the federal programs to which they are charged.

Anticipated Completion Date: June 2001

Responsible Individual: Dave Pike

Finding Number: 790107

Finding Title: Cash Management

See Finding 790102 with the findings related to the financial schedules.

Finding Number: 790108

Finding Title: Procurement Card Usage

See Finding 790103 with the findings related to the financial schedules.

Glossary of Acronyms and Terms

agency security administrator	An agency employee designated by the agency to manage all security matters in relation to MAIN's Financial Administration and Control System (FACS) security.
<i>CFDA</i>	<i>Catalog of Federal Domestic Assistance.</i>
Data Collection and Distribution System (DCDS)	A client/server system with the primary purposes of supporting the capture of time, attendance, and labor distribution data and providing extended labor distribution functionality.
DMB	Department of Management and Budget.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are fairly presented in conformity with the disclosed basis of accounting.
internal control	A process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) reliability of financial reporting, (2) effectiveness and efficiency of operations, and (3) compliance with applicable laws and regulations.
low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual Single Audit and it meets other criteria related to prior audit results. In accordance with State statutes, this Single Audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.

material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the results of operations or cash flows in conformity with the disclosed basis of accounting.
material noncompliance	Violations of laws and regulations that could have a direct and material effect on major federal programs or on financial schedule and/or statement amounts.
material weakness	A condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that either misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements being audited or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
Michigan Administrative Information Network (MAIN)	A fully integrated automated financial management system for the State of Michigan.
mission	The agency's main purpose or the reason that the agency was established.
OFM	Office of Financial Management.
OMB	U.S. Office of Management and Budget.
PDP	Pesticide Data Program.

Personnel-Payroll Information System for Michigan (PPRISM)	An online database system used for updating and inquiry of personnel and payroll records.
procurement card	A credit card issued to State employees for purchasing commodities and services in accordance with the State purchasing policy. At the time of our audit, this was a MasterCard Purchasing Card product.
questioned cost	A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.
reportable condition	A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the entity's ability to (1) record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules and/or financial statements or (2) administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants.
Single Audit	A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of auditing standards generally accepted in the United States of America and the

standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.

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unqualified opinion

An auditor's opinion in which the auditor states, without reservation, that the financial schedules and/or financial statements are fairly presented in conformity with the disclosed basis of accounting or are fairly presented in relation to the primary financial schedules and/or statements or an auditor's opinion in which the auditor states, without reservation, that the audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.