



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



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

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

Audit report information can be accessed at:

<http://audgen.michigan.gov>



Michigan
Office of the Auditor General
REPORT SUMMARY

Financial Audit
Including the Provisions of the Single Audit Act

Report Number:
 791-0100-07

Department of Agriculture

October 1, 2004 through September 30, 2006

Released:
 June 2007

A Single Audit is designed to meet the needs of all financial report users, including an entity's federal grantor agencies. The audit determines if the financial schedules and/or financial statements are fairly presented; considers internal control over financial reporting and internal control over federal program compliance; determines compliance with State compliance requirements material to the financial schedules and/or financial statements; and assesses compliance with direct and material requirements of the major federal programs.

Financial Schedules:

Auditor's Report Issued

We issued an unqualified opinion on the Department of Agriculture's financial schedules.

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Internal Control Over Financial Reporting

We identified reportable conditions related to internal control over financial reporting (Findings 1, 2, and 3). We do not consider these reportable conditions to be material weaknesses.

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**Noncompliance and Other Matters
 Material to the Financial Schedules**

We did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under *Government Auditing Standards*.

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Federal Awards:

Auditor's Reports Issued on Compliance

We audited 5 programs as major programs and issued 5 unqualified opinions. The federal programs audited as major programs are identified on the back of this summary.

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Internal Control Over Major Programs

We identified reportable conditions related to internal control over major programs (Findings 4 and 5). We do not consider these reportable conditions to be material weaknesses.

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Required Reporting of Noncompliance

We identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 (Findings 4 and 5).

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Systems of Accounting and Internal Control:

We determined that the Department was in substantial compliance with Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws*. However, we did identify a reportable condition (Finding 1).

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We audited the following programs as major programs:

<u>CFDA Number</u>	<u>Program Title</u>	<u>Compliance Opinion</u>
10.025	Plant and Animal Disease, Pest Control, and Animal Care	Unqualified
10.163	Market Protection and Promotion	Unqualified
10.680	Forest Health Protection	Unqualified
10.913	Farm and Ranch Lands Protection Program	Unqualified
66.460	Nonpoint Source Implementation Grants	Unqualified

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



Michigan Office of the Auditor General
201 N. Washington Square
Lansing, Michigan 48913

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

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Deputy Auditor General



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

June 22, 2007

Mr. James E. Byrum, Chair
Commission of Agriculture
and
Mr. Mitch Irwin, Director
Department of Agriculture
Constitution Hall
Lansing, Michigan

Dear Mr. Byrum and Mr. Irwin:

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, 2004 through September 30, 2006.

This report contains our report summary, our independent auditor's report on the financial schedules, and the Department of Agriculture financial schedules and schedule of expenditures of federal awards. This report also contains our independent auditor's report on internal control over financial reporting and on compliance and other matters, our independent auditor's report 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, and our schedule of findings and questioned costs. In addition, this report contains the Department of Agriculture's summary schedule of prior audit findings, its corrective action plan, 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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INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL SCHEDULES



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

Independent Auditor's Report on the Financial Schedules

Mr. James E. Byrum, Chair
Commission of Agriculture
and
Mr. Mitch Irwin, Director
Department of Agriculture
Constitution Hall
Lansing, Michigan

Dear Mr. Byrum and Mr. Irwin:

We have audited the accompanying financial schedules of the Department of Agriculture for the fiscal years ended September 30, 2006 and September 30, 2005, as identified in the table of contents. 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.

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 1, the financial schedules present only the revenues and other financing sources and the sources and disposition of authorizations for the Department of Agriculture's General Fund accounts, presented using the current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either the Department or the State's General Fund in conformity 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 revenues and other financing sources and the sources and disposition of authorizations of the Department of Agriculture for the fiscal years ended September 30, 2006 and September 30, 2005 on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2007 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The 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

April 16, 2007

DEPARTMENT OF AGRICULTURE
Schedule of General Fund Revenues and Other Financing Sources
Fiscal Years Ended September 30

	<u>2006</u>	<u>2005</u>
REVENUES		
Taxes	\$ 18,149,055	\$ 19,382,803
Federal revenue (Note 3)	13,740,390	25,943,423
Services	2,449,883	2,569,757
Licenses and permits	10,627,372	10,364,993
Miscellaneous revenue	<u>2,957,844</u>	<u>3,675,335</u>
Total revenues	\$ 47,924,544	\$ 61,936,311
OTHER FINANCING SOURCES		
Transfers from other funds (Note 4)	<u>9,494,638</u>	<u>9,172,110</u>
Total revenues and other financing sources	<u>\$ 57,419,182</u>	<u>\$ 71,108,421</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

	2006	2005
SOURCES OF AUTHORIZATIONS (Note 2)		
General purpose appropriations	\$ 28,887,700	\$ 28,427,900
Budgetary transfers in (out)		2,025,000
Balances carried forward	7,523,781	8,595,276
Restricted financing sources	57,299,750	67,401,346
Less: Intrafund expenditure reimbursements	(618,268)	(422,416)
Total	\$ 93,092,963	\$ 106,027,106
DISPOSITION OF AUTHORIZATIONS (Note 2)		
Gross expenditures and transfers	\$ 88,841,070	\$ 98,860,781
Less: Intrafund expenditure reimbursements	(618,268)	(422,416)
Net expenditures and transfers	\$ 88,222,802	\$ 98,438,365
Balances carried forward:		
Encumbrances	\$ 225,732	\$ 315,169
Restricted revenues - not authorized or used	4,309,429	7,208,612
Total balances carried forward	\$ 4,535,160	\$ 7,523,781
Balances lapsed	\$ 335,000	\$ 64,960
Total	\$ 93,092,963	\$ 106,027,106

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, 2006 and September 30, 2005. The financial transactions of the Department are accounted for 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 disclosures regarding the State's significant accounting policies; budgeting, budgetary control, and legal compliance; and pension benefits and other postemployment benefits.

b. Measurement Focus, Basis of Accounting, and Presentation

The financial schedules contained in this report are presented using the current financial resources measurement focus and the modified accrual basis of accounting, as provided by accounting principles generally accepted in the United States of America. Under the modified accrual basis of accounting, revenues are recognized as they become susceptible to accrual, generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred; however, certain expenditures related to long-term obligations are recorded only when payment is due and payable.

The accompanying financial schedules present only the revenues and other financing sources and the sources and disposition of authorizations for the Department of Agriculture's General Fund accounts. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either the Department or the State's

General Fund in conformity 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 revenues.
- 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 Department processed the fiscal year 2004-05 transfer of approximately \$2.0 million to convert State restricted funds to General Fund/general purpose funds in compliance with Act 353, P.A. 2004.
- c. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenues - authorized, and restricted revenues - not authorized or used 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 revenues - not authorized or used.
- d. Restricted financing sources: Collections of restricted revenues and restricted transfers, net of 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 revenues - authorized or restricted revenues - not authorized or

used. The Emerald Ash Borer grants represented \$6.8 million and \$18.1 million in restricted financing sources in fiscal years 2005-06 and 2004-05, respectively.

- e. Intrafund expenditure reimbursements: Funding from other General Fund departments to finance a program or a portion of a program that is the responsibility of the receiving department. Significant intrafund expenditure reimbursements were from the Department of Environmental Quality's Nonpoint Source Implementation Grants (\$324,002 and \$319,449 for fiscal years 2005-06 and 2004-05, respectively) and from the Department of Community Health's Centers for Disease Control and Prevention - Investigations and Technical Assistance (\$266,972 for fiscal year 2005-06).
- f. Encumbrances: Authorizations carried forward to finance payments for goods or services ordered during the fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general purpose appropriations.
- g. Restricted revenues - not authorized or used: Revenues that, by statute, are restricted for use to a particular program or activity. Generally, the expenditure of the restricted revenues is subject to annual legislative appropriation. Significant carry-forwards of this type were groundwater and freshwater protection funds (\$1.1 million and \$1.3 million for fiscal years 2005-06 and 2004-05, respectively); equine development funds (\$1.4 million for fiscal year 2004-05); and agricultural preservation funds (\$1.3 million and \$1.8 million for fiscal years 2005-06 and 2004-05, respectively).
- h. Balances lapsed: Authorizations that were unexpended and unobligated at the end of the fiscal year. These amounts are available for legislative appropriation in the subsequent fiscal year.

Note 3 Federal Revenue

The \$12.2 million decrease in the Department's federal revenue was primarily the result of a \$11.3 million decrease in the federal award for the eradication of the emerald ash borer.

Note 4 Transfers

The Department received transfers from the State Services Fee Fund of \$8.5 million in fiscal year 2005-06 and \$8.2 million in fiscal year 2004-05, per Act 148, P.A. 2005, and Act 353, P.A. 2004, respectively. In addition, the Department received transfers from the Forest Development Fund of \$1.0 million for each of fiscal years 2005-06 and 2004-05, per Act 154, P.A. 2005, and Act 347, P.A. 2004, respectively.

SUPPLEMENTAL
FINANCIAL SCHEDULE

DEPARTMENT OF AGRICULTURE
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2004 through September 30, 2006

For the Fiscal Year Ended September 30, 2005

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		\$ 19,863,111	\$ 583,917	\$ 20,447,028
Wildlife Services	10.028		226,864		226,864
Conservation Reserve Program	10.069	(3)			0
Wetlands Reserve Program	10.072	(3)			0
Federal-State Marketing Improvement Program	10.156			63,308	63,308
Market Protection and Promotion	10.163		1,841,251		1,841,251
Food Safety Cooperative Agreements	10.479				0
Forest Health Protection	10.680		170,636	136,862	307,498
Business and Industry Loans	10.768		113,090	45,000	158,090
Rural Business Enterprise Grants	10.769		100,270	6,900	107,170
Soil and Water Conservation	10.902			91,115	91,115
Environmental Quality Incentives Program	10.912	(3)			0
Farm and Ranch Lands Protection Program	10.913		1,075,817		1,075,817
Wildlife Habitat Incentive Program	10.914	(3)			0
Conservation Reserve Enhancement Program	10.125D21	(3)			0
Federal-State Inspection and Grading Service for Dairy Products	10.12-25-A-3213		33,212		33,212
Total Direct Programs			<u>\$ 23,424,251</u>	<u>\$ 927,102</u>	<u>\$ 24,351,353</u>
Pass-Through Programs:					
Gypsy Moth Slow the Spread Foundation, Inc.					
Plant and Animal Disease, Pest Control, and Animal Care	10.025	310505-00	\$ 27,625	\$	\$ 27,625
Cooperative Forestry Assistance	10.664	307104-04, 307105-05	90,130		90,130
Total Pass-Through Programs			<u>\$ 117,755</u>	<u>\$ 0</u>	<u>\$ 117,755</u>
Total U.S. Department of Agriculture			<u>\$ 23,542,006</u>	<u>\$ 927,102</u>	<u>\$ 24,469,108</u>
<u>U.S. Department of Labor</u>					
Direct Program:					
National Farmworker Jobs Program	17.264		\$	\$	\$ 0
Total U.S. Department of Labor			<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>U.S. Environmental Protection Agency</u>					
Direct Programs:					
Performance Partnership Grants	66.605		\$ 691,001	\$ 23,788	\$ 714,789
Consolidated Pesticide Enforcement Cooperative Agreements	66.700		230,000		230,000
Total Direct Programs			<u>\$ 921,001</u>	<u>\$ 23,788</u>	<u>\$ 944,789</u>
Pass-Through Programs:					
Michigan Department of Environmental Quality Nonpoint Source Implementation Grants	66.460	652105-00, 654004-04, 659106-04, 659205-05	\$ 150,000	\$ 632,372	\$ 782,372
Hazardous Waste Management State Program Support	66.801	659105-05		20,149	20,149
Total Pass-Through Programs			<u>\$ 150,000</u>	<u>\$ 652,521</u>	<u>\$ 802,521</u>
Total U.S. Environmental Protection Agency			<u>\$ 1,071,001</u>	<u>\$ 676,309</u>	<u>\$ 1,747,310</u>
<u>U.S. Department of Health and Human Services</u>					
Direct Programs:					
Food and Drug Administration Research	93.103		\$	\$	\$ 0
Ruminant Feed Ban Support Project	93.449				0
Food Sanitation Inspections	93.223-04-4011, 93.HHSF223200540041C		196,804		196,804
Medicated Feed Inspections	93.223-04-4025, 93.223-05-4025		48,559		48,559
Tissue Residue Inspections	93.223-03-4010, 93.HHSF223200540039C		10,359		10,359
Michigan Food Safety Task Force Meetings	93.FD-R-002646-01		7,000		7,000
Total Direct Programs			<u>\$ 262,722</u>	<u>\$ 0</u>	<u>\$ 262,722</u>

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2006

Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
	\$ 8,114,627	\$ 189,473	\$ 8,304,100	\$ 28,751,128
	149,589		149,589	376,453
	20,861	23,617	44,478	44,478
	11,979	35,280	47,259	47,259
		60,762	60,762	124,070
	1,842,497		1,842,497	3,683,748
	95,000		95,000	95,000
	222,180	72,724	294,904	602,402
	23,511	19,771	43,282	201,372
	85,563	6,100	91,663	198,833
			0	91,115
	41,993	68,596	110,589	110,589
	636,322		636,322	1,712,139
	17,455	23,853	41,308	41,308
	5,800	9,105	14,905	14,905
	<u>24,800</u>		<u>24,800</u>	<u>58,012</u>
	<u>\$ 11,292,177</u>	<u>\$ 509,281</u>	<u>\$ 11,801,458</u>	<u>\$ 36,152,811</u>
307105-05, 307106-06	\$ 90,480		\$ 90,480	\$ 27,625
	<u>\$ 90,480</u>	<u>\$ 0</u>	<u>\$ 90,480</u>	<u>\$ 180,610</u>
	<u>\$ 11,382,657</u>	<u>\$ 509,281</u>	<u>\$ 11,891,938</u>	<u>\$ 36,361,046</u>
	<u>\$ 141,777</u>		<u>\$ 141,777</u>	<u>\$ 141,777</u>
	<u>\$ 141,777</u>	<u>\$ 0</u>	<u>\$ 141,777</u>	<u>\$ 141,777</u>
	\$ 592,569	\$ 18,631	\$ 611,200	\$ 1,325,989
	<u>230,000</u>		<u>230,000</u>	<u>460,000</u>
	<u>\$ 822,569</u>	<u>\$ 18,631</u>	<u>\$ 841,200</u>	<u>\$ 1,785,989</u>
652106-00, 654006-06, 659205-05 659406-06	\$ 150,000	\$ 431,627	\$ 581,627	\$ 1,363,999
		6,491	6,491	26,640
	<u>150,000</u>	<u>438,118</u>	<u>\$ 588,118</u>	<u>\$ 1,390,639</u>
	<u>\$ 972,569</u>	<u>\$ 456,749</u>	<u>\$ 1,429,318</u>	<u>\$ 3,176,628</u>
	\$ 7,000		\$ 7,000	\$ 7,000
	250,000		250,000	250,000
	187,923		187,923	384,727
	53,530		53,530	102,089
	12,248		12,248	22,607
			0	7,000
	<u>\$ 510,701</u>	<u>\$ 0</u>	<u>\$ 510,701</u>	<u>\$ 773,423</u>

DEPARTMENT OF AGRICULTURE
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2004 through September 30, 2006
Continued

For the Fiscal Year Ended September 30, 2005

Federal Agency/Program	CFDA (2) Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Pass-Through Program:					
Michigan Department of Community Health Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	312905-00, 501305-00, 600605-00, 600606-05	\$ 272,556	\$ 0	\$ 272,556
Total U.S. Department of Health and Human Services			\$ 535,278	\$ 0	\$ 535,278
<u>Corporation for National and Community Service</u>					
Pass-Through Program:					
Michigan Department of Labor and Economic Growth AmeriCorps	94.006	656104-04, 656105-05	\$ 181,938	\$ 0	\$ 181,938
Total Corporation for National and Community Service			\$ 181,938	\$ 0	\$ 181,938
Total Expenditures of Federal Awards			\$ 25,330,223	\$ 1,603,411	\$ 26,933,634

- (1) Basis of Presentation: This schedule presents the federal grant activity of the Department of Agriculture on the modified accrual basis of accounting and in accordance with the requirements of U.S. Office of Management and Budget (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.
- (2) CFDA is defined as *Catalog of Federal Domestic Assistance*.
- (3) Expenditures for these programs were prorated based on budgeted expenditures provided by the federal agency in the grant agreement.

For the Fiscal Year Ended September 30, 2006

<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>
501306-00, 501406-00, 600606-05, 600607-06	\$ 409,225	\$ 0	\$ 409,225	\$ 681,781
	<u>\$ 919,926</u>	<u>\$ 0</u>	<u>\$ 919,926</u>	<u>\$ 1,455,204</u>
656105-05, 656106-06	\$ 181,789	\$ 0	\$ 181,789	\$ 363,727
	<u>\$ 181,789</u>	<u>\$ 0</u>	<u>\$ 181,789</u>	<u>\$ 363,727</u>
	<u>\$ 13,598,718</u>	<u>\$ 966,030</u>	<u>\$ 14,564,748</u>	<u>\$ 41,498,382</u>

INDEPENDENT AUDITOR'S REPORTS ON
INTERNAL CONTROL AND COMPLIANCE



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

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

Mr. James E. Byrum, Chair
Commission of Agriculture
and
Mr. Mitch Irwin, Director
Department of Agriculture
Constitution Hall
Lansing, Michigan

Dear Mr. Byrum and Mr. Irwin:

We have audited the financial schedules of the Department of Agriculture for the fiscal years ended September 30, 2006 and September 30, 2005, as identified in the table of contents, and have issued our report thereon dated April 16, 2007. 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.

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 an opinion 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 initiate, record, process, and report financial data consistent with the assertions of management in the financial schedules. The reportable conditions are described in the accompanying schedule of findings and questions costs as Findings 1, 2, and 3.

A material weakness is a reportable 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 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 identified in the previous paragraph is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

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

April 16, 2007



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
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THOMAS H. MCTAVISH, C.P.A.
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

Mr. James E. Byrum, Chair
Commission of Agriculture
and
Mr. Mitch Irwin, Director
Department of Agriculture
Constitution Hall
Lansing, Michigan

Dear Mr. Byrum and Mr. Irwin:

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 two-year period ended September 30, 2006. 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 first paragraph that are applicable to each major federal

program for the two-year period ended September 30, 2006. 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 4 and 5.

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. The reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 4 and 5.

A material weakness is a reportable 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 the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud 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 neither of the reportable conditions identified 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

April 16, 2007

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 or other matters 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:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
10.025	Plant and Animal Disease, Pest Control, and Animal Care
10.163	Market Protection and Promotion
10.680	Forest Health Protection
10.913	Farm and Ranch Lands Protection Program
66.460	Nonpoint Source Implementation Grants

* See glossary at end of report for definition.

Dollar threshold used to distinguish between type A and type B programs: \$1,244,951

Auditee qualified as a low-risk auditee*? No

Section II: Findings Related to the Financial Schedules

FINDING (7910701)

1. Internal Auditor and Biennial Internal Control Assessment

The Department of Agriculture assigned duties to the internal auditor that were incompatible with the internal audit function. In addition, the Department did not assess all key business processes in its biennial internal control assessment. These conditions may have impacted the Department's ability to evaluate its internal control.

Section 18.1486 of the *Michigan Compiled Laws* requires the Department's internal auditor to be organizationally independent with respect to financial audits and it establishes specific functions for the internal auditor to perform. These functions include conducting and supervising audits of the Department's financial activities and operations and informing management of deficiencies in the Department's internal accounting and administrative control system. Section 18.1485 of the *Michigan Compiled Laws* requires the Department to issue a biennial internal control assessment and describe in it any material inadequacy or weakness discovered as well as time schedules for correcting the material deficiencies.

Our review of the Department's internal control disclosed:

- a. The Department's internal auditor was responsible for administering the Department's security for the Michigan Administrative Information Network* (MAIN) and other information systems. Although the internal auditor has a role in information security, having primary responsibility for the Department's information security impairs the internal auditor's ability to conduct impartial audits and investigations and present management with objective conclusions regarding the effectiveness of the Department's internal information systems and MAIN.

* See glossary at end of report for definition.

- b. The Department did not evaluate 11 (58%) of 19 processes that it considered to be key business processes in its biennial internal control assessment. The controls that the Department did not evaluate related to processes such as inspections, licensing, and compliance assistance that are significant to the Department's responsibilities to ensure compliance with federal requirements applicable to its approximately \$41.5 million in federally funded programs.

RECOMMENDATIONS

We recommend that the Department not assign duties to the internal auditor that are incompatible with the internal audit function.

We also recommend that the Department assess all key business processes in its biennial internal control assessment.

FINDING (7910702)

2. Cash Receipts

The Department's internal control did not ensure proper separation of duties and other safeguards related to its cash receipting process. As a result, the Department increased its risk of misappropriation of cash receipts.

Proper internal control is necessary to ensure that cash receipts are adequately safeguarded and deposited on a timely basis. The Department processed cash receipts of \$13.2 million and \$13.7 million in fiscal years 2005-06 and 2004-05, respectively, through its Cashier's Validation System and its L2000 System*.

The State of Michigan Financial Management Guide (Part II, Chapter 9, Section 100) states that mail received by agencies containing cash receipts must be opened and logged by at least two mail openers, checks must be restrictively endorsed immediately upon receipt, cash receipts must be deposited with the State Treasurer or in a State Treasurer's bank account as often as daily, cash receipts must be stored in a secure location until they are deposited, and cash receipts from the point of receipt to the point of verification of deposit must not be entrusted to only one employee.

* See glossary at end of report for definition.

The Department receives and opens mail that contains cash receipts in the mailroom and in the cashier's office. Also, field employees collect and send cash receipts to the Department's central office for processing. To assess the Department's control over its cash receipting process, we reviewed 23 daily deposits totaling \$2.3 million received from May 2006 through September 2006 and observed a daily cash receipting process on March 19, 2007, including the receipt of 28 checks totaling \$13,793. Our review disclosed:

- a. The Department did not always ensure that mail was opened and logged by at least two employees. Also, the Department did not ensure that the cash receipts were appropriately verified by the mail openers. During our observation of the mail opening process, we noted that at least two employees were not always present while mail was being opened and that the employees did not separately verify the number of checks and the amount of cash received.
- b. The Department did not ensure that its employees restrictively endorsed checks immediately upon receipt in the field or in the Department's central mailroom. We noted that checks were not endorsed until they were received in the central cashier's office.
- c. The Department did not secure access to the mailroom. Non-mailroom employees accessed the mailroom during our observation of the mail opening process.
- d. The Department did not ensure that cash receipts were deposited on a timely basis. We noted from our review of 16 cash logs that \$363,471 (17%) of \$2.2 million total cash receipts collected in the mailroom were deposited from 4 to 6 days after receipt. Also, the Department required field employees to send their cash receipts to the central office for deposit, rather than depositing their receipts in a State account at a local financial institution. The cash should be deposited as close to the date of receipt as possible.
- e. The Department did not determine the disposition of unremitted receipts.

The Department assigns sequentially numbered receipt books to its field employees. When cash is received, the field employees are required to issue a receipt from the receipt book and submit both the cash and the receipt to the

central cashier's office. The Department tracked the receipt books that had been issued to the field employees; however, it did not determine the disposition of receipts that had not been remitted. Determining the disposition of unremitted receipts would help ensure that all cash collected is deposited with the cashier, effectively reducing the risk of fraud or misuse.

RECOMMENDATION

We recommend that the Department improve its internal control to help ensure proper separation of duties and other safeguards related to its cash receipting process.

FINDING (7910703)

3. Schedule of Expenditures of Federal Awards (SEFA)

The Department should enhance its internal control over financial reporting to help ensure that its accounting records are accurate and that its SEFA is presented in accordance with OMB Circular A-133. Inaccuracies in the accounting records can cause inefficiencies in preparing the SEFA, affect the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*, and impair the extent to which the users of the SEFA can rely on the information presented.

Section 18.1461 of the *Michigan Compiled Laws* requires the Department to prepare a SEFA, and the State of Michigan Financial Management Guide (Part II, Chapter 24, Section 100) provides instructions for preparing the Department's SEFA in accordance with OMB Circular A-133.

Although errors were corrected when brought to the Department's attention for the SEFA presented in this report, our review of the Department's draft SEFA disclosed the following discrepancies:

- a. The Department did not have written procedures for ensuring that federal expenditures were properly included in the SEFA. OMB Circular A-133, Section 300(a), requires the Department to identify, in its accounts, all federal awards received and expended within the applicable federal programs.

The Department classified \$150,000 of federal Nonpoint Source Implementation Grants (*CFDA* 66.460) expenditures as "State restricted" and

more than \$90,000 of federal Cooperative Forestry Assistance (*CFDA* 10.664) expenditures as "private" in its accounting records for both fiscal years 2005-06 and 2004-05. The Department also classified \$27,625 of federal Plant and Animal Disease, Pest Control, and Animal Care (*CFDA* 10.025) expenditures as "private" in its accounting records for fiscal year 2004-05. The lack of written procedures increases the Department's risk that federal expenditures will not be presented in its SEFA.

- b. The Department did not always ensure that the SEFA included the name and identifying number of the pass-through entity* when necessary. OMB Circular A-133, Section 310(b)(2), requires that, for federal awards received as a subrecipient*, the SEFA should include the name of the pass-through entity and the identifying number assigned by the pass-through entity. Our review disclosed:
 - (1) The Department did not report the name and identifying number of the pass-through entity for the Gypsy Moth Slow the Spread Trapping grant within Cooperative Forestry Assistance (*CFDA* 10.664) and the Gypsy Moth Slow the Spread Regulatory Agreement grant within Plant and Animal Disease, Pest Control, and Animal Care (*CFDA* 10.025). These grant expenditures totaled \$90,480 and \$117,755 for fiscal years 2005-06 and 2004-05, respectively.
 - (2) The Department incorrectly reported the Michigan Department of Career Development rather than the Michigan Department of Labor and Economic Growth as the pass-through entity for its AmeriCorps (*CFDA* 94.006) expenditures of \$181,789 and \$181,938 in fiscal years 2005-06 and 2004-05, respectively.
- c. The Department did not always ensure that the SEFA included total federal awards expended for each federal program and the correct *CFDA* program title and number. OMB Circular A-133, Section 310(b)(3), requires the SEFA to include the total federal awards expended for each individual federal

* See glossary at end of report for definition.

program and the *CFDA* number or other identifying number when the *CFDA* information is not available. Our review disclosed:

- (1) The Department incorrectly reported the fiscal year 2004-05 Forest Health Protection (*CFDA* 10.680) expenditures of \$307,498 as Cooperative Forestry Assistance (*CFDA* 10.664) expenditures. Also, the Department incorrectly reported the fiscal year 2005-06 Environmental Quality Incentives Program (*CFDA* 10.912) expenditures of \$56,011 within the Agricultural Management Assistance Program (*CFDA* 10.917) and Rural Business Enterprise Grants (*CFDA* 10.769) expenditures of \$30,743 within the Business and Industry Loans Program (*CFDA* 10.768).
 - (2) The Department did not separately identify the Conservation Reserve Program (*CFDA* 10.069) expenditures on its SEFA for fiscal year 2005-06. These expenditures were incorrectly reported in one line item for *CFDA* 10.912 and 10.914. As a result, *CFDA* 10.069 was understated by \$44,478 and the line item containing *CFDA* 10.912 and 10.914 was overstated by the same amount.
 - (3) The Department did not separately identify the expenditure amounts related to the multiple *CFDA* titles and numbers for the Technical Assistance 2002 Farm Bill and the Technical Engineering Assistance 2002 Farm Bill for fiscal year 2005-06. It included only a single amount for the total expended and distributed for each grant on the SEFA.
- d. The Department did not always accurately identify the total amount provided to subrecipients for each federal program. OMB Circular A-133, Section 310(b)(5), requires pass-through entities to identify the total amount provided to subrecipients for each federal program.

We noted that the Department incorrectly identified payments made to vendors as payments made to subrecipients for the Plant and Animal Disease, Pest Control, and Animal Care Program (*CFDA* 10.025). As a result, the Department understated expenditures directly expended and overstated expenditures distributed to subrecipients by \$348,093 and \$1.3 million for fiscal years 2005-06 and 2004-05, respectively.

RECOMMENDATION

We recommend that the Department enhance its internal control over financial reporting to help ensure that its accounting records are accurate and that its SEFA is presented in accordance with OMB Circular A-133.

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 (7910704)

4. Farm and Ranch Lands Protection Program, CFDA 10.913

U.S. Department of Agriculture	CFDA 10.913: Farm and Ranch Lands Protection Program
Cooperative Agreement: 68-5D21-2-65 68-5D21-3-38 68-5D21-3-122 68-5D21-4-128	Award Period: 09/19/2002 - 09/30/2006 07/14/2003 - 09/30/2006 09/18/2003 - 09/30/2008 09/22/2004 - 09/30/2009
	Questioned Costs: \$0

The Department's internal control over its use of federal funds did not ensure that the Farm and Ranch Lands Protection Program complied with federal laws and regulations regarding procurement and suspension and debarment and special tests and provisions.

Noncompliance with federal program requirements could result in sanctions, disallowances, and/or future reductions in Farm and Ranch Lands Protection Program awards.

The U.S. Department of Agriculture (USDA) provides Farm and Ranch Lands Protection Program awards to aid recipients in the purchase of conservation easements. The U.S. Commodity Credit Corporation (USCCC) administers the

* See glossary at end of report for definition.

funds on behalf of the USDA by entering into a cooperative agreement with the Department when land has been identified for this purpose.

Our review of the Department's cooperative agreements with USCCC disclosed exceptions, by compliance area, as follows:

a. Procurement and Suspension and Debarment

The Department's internal control did not ensure compliance with the suspension and debarment requirements for the Farm and Ranch Lands Protection Program.

Section VII.E of the Department's cooperative agreement with USCCC requires that the Department administer the award in accordance with Title 7, Part 3016 of the *Code of Federal Regulations (CFR)*. Federal regulation 7 CFR 3016.35 prohibits the Department from awarding grants to individuals or organizations that have been suspended or debarred or otherwise excluded from doing business with the federal government.

Our review of the 8 conservation easements purchased during the audit period and the related documentation disclosed that the Department did not obtain documentation from the 8 (100%) landowners certifying that they had not been suspended or debarred from receiving federal funds. Even though our review of the federal suspension and debarment list did not identify any of the program's subrecipients, the Department should have a control in place to verify suspension and debarment.

b. Special Tests and Provisions

The Department's internal control did not ensure compliance with all requirements of the cooperative agreements between the Department and USCCC.

Section VII.B.11 of the cooperative agreement requires the Department to certify payment(s) received by submitting a transmittal letter that references: (1) the cooperative agreement number; (2) the conservation easement number; (3) the total amount of dollars paid or to be paid to the landowner for the conservation easement, specifying the USCCC share and the Department share of the conservation easement cost; (4) the acres acquired; (5) a copy of the recorded deed containing the right clause and conservation easement

paragraphs as described in the cooperative agreement; and (6) Internal Revenue Service (IRS) form 8283 and a current appraisal when a landowner donation accounts for a portion of the entity's matching share. The cooperative agreement also requires that this information be included in the Department's request for advance/reimbursement of funds (SF-270).

Although this information was reported on the SF-270, our review of the 8 conservation easements purchased during the audit period disclosed that none of the 8 letters contained items (2) through (5). In addition, 3 of the 8 easements required item (6) to be included; however, none of them included it.

RECOMMENDATION

We recommend the Department improve its internal control over its use of federal funds to ensure that the Farm and Ranch Lands Protection Program complies with federal laws and regulations regarding procurement and suspension and debarment and special tests and provisions.

FINDING (7910705)

5. Nonpoint Source Implementation Grants, CFDA 66.460

U.S. Environmental Protection Agency	CFDA 66.460: Nonpoint Source Implementation Grants
Pass-Through Identification Numbers: 659106-04 654004-04 652105-00 659205-05 654006-06 652106-00	Award Period: 01/01/2004 - 12/31/2005 02/01/2004 - 09/30/2005 10/01/2004 - 09/30/2005 01/01/2005 - 03/31/2006 10/01/2005 - 09/30/2006 10/01/2005 - 09/30/2006
Pass-Through Agency: Michigan Department of Environmental Quality	Questioned Costs: \$43,862

The Department's internal control did not ensure that the Nonpoint Source Implementation Grants Program complied with federal laws and regulations regarding allowable costs/cost principles, procurement and suspension and debarment, reporting, and subrecipient monitoring. As a result, we questioned costs in the amount of \$43,862. Noncompliance with federal program requirements could result in sanctions, disallowances, and/or future reductions in Nonpoint Source Implementation Grants Program awards.

Federal expenditures for the Nonpoint Source Implementation Grants Program totaled approximately \$1.4 million for the two-year period ended September 30, 2006. The Department distributed \$431,627 and \$632,372 of the total program expenditures to 16 Nonpoint Source Implementation Grants Program subrecipients in fiscal years 2005-06 and 2004-05, respectively.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

The Department's internal control was not effective in ensuring compliance with Appendix A of federal regulation 2 *CFR* 225 (OMB Circular A-87*) and OMB Circular A-133. Our review disclosed:

- (1) The Department did not have adequate documentation to support total payments made to its subrecipients. Appendix A, subsection C.1.j. of federal regulation 2 *CFR* 225 requires costs charged to federal programs to be adequately documented. The Department distributed funds to its 16 subrecipients in five equal installments throughout the fiscal year and, as required by the grant agreement, the subrecipients submitted quarterly financial reports and annual financial statements to the Department. We determined that the Department did not reconcile the payment distributions with the subrecipients' quarterly financial reports or with the annual financial statements. Our reconciliation of the payment distributions to the total of the quarterly financial reports and to the annual financial statements disclosed that, for fiscal years 2005-06 and 2004-05 combined, the Department overpaid 9 and underpaid 3 of its 16 subrecipients by \$64,076 and \$23,494, respectively. The Department was unable to explain the reasons for these differences; therefore, we questioned costs for the net amount of \$40,582.
- (2) The Department reimbursed subrecipients for \$3,280 of unallowable audit costs charged to the program. OMB Circular A-133, Section 230(b), prohibits subrecipients that expend less than \$500,000 in federal awards annually to charge costs of any audits or attestation engagements to any federal award, including costs for a financial statement audit conducted in accordance with generally accepted auditing standards. Our review of

* See glossary at end of report for definition.

the subrecipients' annual financial statements disclosed that each of the subrecipients had expended less than \$500,000 in federal awards and, therefore, were not allowed to charge audit costs to the program. Our review of the subrecipients' quarterly financial reports disclosed that five subrecipients included \$3,280 of audit costs in their reports. Therefore, we questioned costs in the amount of \$3,280.

b. Procurement and Suspension and Debarment

The Department's internal control did not ensure compliance with the procurement and suspension and debarment requirements for the Nonpoint Source Implementation Grants Program.

Federal regulation 7 *CFR* 3016.35 prohibits the Department from awarding grants to individuals or organizations that have been suspended or debarred or otherwise excluded from doing business with the federal government.

The Department relies on a certification form that should be included in each grant agreement with a subrecipient. The signed form certifies that the subrecipient has not been suspended or debarred or otherwise excluded from doing business with the federal government or is not on the federal suspension and debarment list. However, our review of the 32 subrecipient agreements disclosed that 26 (81%) agreements did not include certifications completed by the subrecipients stating that they were not on the federal suspension and debarment list. Even though our review of the federal suspension and debarment list did not identify any of the program's subrecipients, the Department should have a control in place to verify suspension and debarment.

c. Reporting

The Department's internal control did not ensure compliance with the reporting requirements for the Nonpoint Source Implementation Grants Program.

The memorandums of understanding require the Department to submit, to the Department of Environmental Quality's (DEQ's) project officer, program and financial reports by due dates specified in the memorandums. The quarterly financial reports coincide with the interagency billing requests by the

Department to DEQ. The interagency billings provide DEQ with the ability to seek reimbursement from the federal agency. Our review disclosed:

- (1) Twelve (52%) of the 23 financial reports required to be submitted to DEQ during our audit period were submitted 10 to 194 days after their due dates. In 4 (33%) of the 12 instances, the Department was unable to submit its financial reports to DEQ on a timely basis because the memorandum of understanding was signed from 178 to 212 days after the memorandum's effective date. The untimely financial reporting resulted in approximately \$1,933 of lost interest for the State of Michigan because of DEQ's inability to draw federal funds on a timely basis.
- (2) The Department did not document when 7 (30%) of 23 program reports were submitted to DEQ. In addition, 11 (48%) of the 23 program reports were submitted between 9 and 102 days after their due dates.

d. Subrecipient Monitoring

The Department's internal control was not effective in ensuring compliance with the subrecipient monitoring requirement in accordance with the pass-through entity responsibilities identified in OMB Circular A-133, Section 400(d). As a result, the Department cannot be assured that federal awards are used for authorized purposes in compliance with laws, regulations, and provisions of contracts or grant agreements.

Our review of the subrecipient files disclosed:

- (1) The Department did not document the receipt date for 30 (23%) of the 128 quarterly financial reports and 18 (14%) of the 128 quarterly program reports received from its Nonpoint Source Implementation Grants Program subrecipients during our audit period. As a result, the Department could not ensure that subrecipients submitted all quarterly reports on a timely basis.

The Department's grant agreements require the submission of quarterly financial and program reports from the subrecipients.

- (2) The Department did not consistently inform subrecipients of federal award information and requirements, as required by OMB Circular A-133, Section 400(d).

OMB Circular A-133, Section 400(d), requires that the pass-through entity inform the subrecipients of the *CFDA* title and number, the award name and number, and the name of the federal awarding agency; notify each subrecipient of the requirement to permit the pass-through entity and auditors to have access to the records and financial statements as necessary; and advise subrecipients of requirements imposed on them by federal laws, regulations, and the provisions of contracts or grant agreements and any supplemental requirements imposed by the pass-through entity. We noted:

- (a) The Department did not provide the *CFDA* title and number and the award number and did not notify the subrecipients of the requirement to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for 11 (69%) of the 16 subrecipients. In addition, the Department did not provide the *CFDA* title or provided the wrong *CFDA* number to 5 (31%) of the 16 subrecipients and did not provide the name of the federal awarding agency to any (100%) of the subrecipients.
- (b) The Department included a general statement requiring compliance with federal requirements in the grant agreements. However, it did not identify in the agreements the specific federal requirements applicable to the program. This identification helps ensure the subrecipients' awareness of their obligations under the agreements.

RECOMMENDATION

We recommend the Department improve its internal control to ensure that the Nonpoint Source Implementation Grants Program complies with federal laws and regulations regarding allowable costs/cost principles, procurement and suspension and debarment, reporting, and subrecipient monitoring.

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.

OTHER SCHEDULES

DEPARTMENT OF AGRICULTURE
Summary Schedule of Prior Audit Findings
As of April 16, 2007

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2002 through September 30, 2004

Finding Number: 790501

Finding Title: Departed Employee Travel Documentation

Finding: The Department of Agriculture did not ensure that employees submitted supporting documentation for travel reimbursements prior to terminating their employment.

Comments: The Department has complied with this recommendation by implementing compensating controls for its employee travel reimbursement process.

Audit Period: October 1, 2000 through September 30, 2002

Finding Number: 790302

Finding Title: Controls Over Travel Reimbursements

Finding: The Department needs to improve controls over employee travel reimbursements.

Comments: See comments to Finding 790501.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2002 through September 30, 2004

Finding Number: 790502

Finding Title: Specialty Crops, *CFDA* 10.UNKNOWN

Finding: The Department's internal control did not ensure that the Specialty Crops Program complied with federal laws and regulations regarding allowable costs/cost principles; equipment and real property management; matching, level of effort, and earmarking; procurement and suspension and debarment; and subrecipient monitoring.

Comments: This finding is no longer applicable because the Department no longer receives this grant.

Audit Period: October 1, 2002 through September 30, 2004

Finding Number: 790503

Finding Title: Plant and Animal Disease, Pest Control, and Animal Care, *CFDA* 10.025

Finding: The Department's internal control over Plant and Animal Disease, Pest Control, and Animal Care funds did not ensure that the Emerald Ash Borer Program complied with federal laws and regulations regarding allowable costs/cost principles and subrecipient monitoring.

Comments: The Department is now paying overtime in accordance with appropriate contractual agreements and has renegotiated contracts with subrecipients to ensure appropriate documentation of subrecipient expenditures. The Department verifies a sample of costs identified in subrecipient financial status reports with supporting invoices to ensure that the costs are appropriate.

Finally, the Department reviewed Single Audits for subrecipients and noted no applicable findings.

Audit Period: October 1, 2000 through September 30, 2002

Finding Number: 790309

Finding Title: Controls Over Travel Reimbursements

Comments: See Finding 790302 with the findings related to the financial schedules.

Audit Findings Not Fully Corrected or Partially Corrected:

Audit Period: October 1, 2002 through September 30, 2004

Finding Number: 790504

Finding Title: Subrecipient Monitoring

Finding: The Department had not established controls to ensure that it satisfied the pass-through entity responsibilities as established by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Comments: Effective September 9, 2005, the Department updated the grant template to include the *CFDA* title and number, the award name and number, the name of the federal agency, if the award is for research and development, and the specific federal requirements. The Department implemented procedures to monitor subrecipient activities as noted in Finding 790503. The Department developed a query to identify subrecipients that required a Single Audit. The Department established a database to maintain a listing of all subrecipients to assist in monitoring audit requirements. Finally, in 2006, the Department completed review of the subrecipient Single Audits that were in backlog status and has stayed current since that time. The Department had not subsequently updated grant contracts that began prior to these procedures'

implementation that were still in existence during the audit period. Thus, the Department has partially complied.

Audit Period: October 1, 2000 through September 30, 2002

Finding Number: 790306

Finding Title: Suspension and Debarment Requirements

Finding: The Department had not established controls to ensure compliance with federal suspension and debarment requirements.

Comments: See comments to Finding 790504.

Audit Period: October 1, 2000 through September 30, 2002

Finding Number: 790307

Finding Title: Subrecipient Monitoring

Finding: The Department had not established controls to ensure that it satisfied the pass-through entity responsibilities as established by OMB Circular A-133.

Comments: See comments to Finding 790504.

DEPARTMENT OF AGRICULTURE

Corrective Action Plan

As of June 6, 2007

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Finding Number:	7910701
Finding Title:	Internal Auditor and Biennial Internal Control Assessment
Management Views:	The Department of Agriculture agrees with the finding.
Corrective Action:	<ol style="list-style-type: none">a. The Department's security for the Michigan Administrative Information Network and other information systems currently being handled by Internal Audit will be assigned as a task to a proposed section within the Office of the State Budget.b. This finding pertains to the September 30, 2004 biennial assessment period. Since that time, the Department has refined evaluation templates and evaluated all 19 processes, identified its most critical information technology (IT) systems based on risks, trained evaluators on how to conduct an evaluation based on Control Objectives for Information and Related Technology* (COBIT), and made its first attempt at evaluating its most critical IT systems. The Department will continue to refine its process for evaluating critical IT systems in a meaningful way.
Anticipated Completion Date:	<ol style="list-style-type: none">a. October 2007b. March 2008
Responsible Individual:	David Bruce

* See glossary at end of report for definition.

Finding Number: 7910702
Finding Title: Cash Receipts

Management Views: The Department agrees with the finding.

Corrective Action: The majority of cash receipts are now under a more controlled cash handling process (e.g., two persons). The Department will continue to refine its process so that all Departmental receipts, where cost-beneficial, are subjected to a controlled cash handling process. This process will be reviewed as part of the proposed consolidated accounting effort in Executive Order No. 2007-32.

Anticipated Completion Date: September 2008

Responsible Individual: David Bruce

Finding Number: 7910703
Finding Title: Schedule of Expenditures of Federal Awards (SEFA)

Management Views: The Department agrees with the finding.

Corrective Action: The Department will draft written procedures to ensure that federal expenditures recorded to nonfederal finance types are properly included on the SEFA. The Department will ensure that the name and the identifying number of the pass-through entity are included when necessary. The Department will also ensure that the correct CFDA program title and number are indicated. The Department will classify vendor payments to ensure that they are not included with subrecipient expenditures on the SEFA.

Anticipated Completion Date: September 2008

Responsible Individual: Rick Harper

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 7910704
Finding Title: Farm and Ranch Lands Protection Program,
CFDA 10.913

Management Views: The Department agrees with the finding.

Corrective Action: The Department either will check the U.S. government debarment Web site to determine if landowners are not eligible for federal funds or will cause the landowners to complete a form indicating that they are not debarred from receiving federal funds. The Department will provide the requested forms with the letter indicating that payment has been received; however, Internal Revenue Service (IRS) form 8283 can only be provided if the form has been prepared at the time of payment.

Anticipated Completion Date: May 2007

Responsible Individual: Rich Harlow

Finding Number: 7910705
Finding Title: Nonpoint Source Implementation Grants,
CFDA 66.460

Management Views: The Department agrees with the finding.

Corrective Action: The Department will verify that adequate documentation exists to support payments to subrecipients quarterly, yearly, and after the subrecipients' audit. The Department will ensure compliance with procurement and suspension and debarment requirements. The Department will comply with the reporting and subrecipient monitoring requirements.

Anticipated Completion Date: September 2007

Responsible Individual: Marsha Wiegman

GLOSSARY

Glossary of Acronyms and Terms

<i>CFDA</i>	<i>Catalog of Federal Domestic Assistance.</i>
<i>CFR</i>	<i>Code of Federal Regulations.</i>
Control Objectives for Information and Related Technology (COBIT)	A framework, control objectives, and audit guidelines developed by the Information Systems Audit and Control Foundation (ISACF) as a generally applicable and accepted standard for good practices for controls over information technology.
DEQ	Department of Environmental Quality.
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 management, designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
IT	information technology.
L2000 System	A client server software application used by the Department of Agriculture to process the licensing and license fee receipting of approximately 70,000 licensees annually.
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 statute, 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 changes in financial position or cash flows in conformity with the disclosed basis of accounting.
material weakness	A reportable condition related to the design or operation of internal control that 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 or noncompliance with applicable requirement 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)	The State's fully integrated automated administrative management system that supports the accounting, payroll, purchasing, contracting, budgeting, personnel, and revenue management activities and requirements. MAIN consists of four major components: MAIN Enterprise Information System (EIS); MAIN Financial Administration and Control System (FACS); MAIN Human Resource System (HRS); and MAIN Management Information Database (MIDB).
OMB	U.S. Office of Management and Budget.
OMB Circular A-87	Guidance regarding "Cost Principles for State, Local, and Indian Tribal Governments," which has been incorporated into the <i>Code of Federal Regulations</i> as Title 2, Part 225 (i.e., federal regulation 2 <i>CFR</i> 225).
pass-through entity	A nonfederal entity that provides a federal award to a subrecipient to carry out a federal program.

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) initiate, record, process, 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. Violations of State laws, regulations, contracts, and grant agreements that should be communicated to management but are not material to the financial schedules and/or financial statements may also be reported.
SEFA	schedule of expenditures of federal awards.
SF-270	request for advance/reimbursement of funds.
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 <i>Government Auditing Standards</i> 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.

<i>SOMCAFR</i>	<i>State of Michigan Comprehensive Annual Financial Report.</i>
subrecipient	A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.
unqualified opinion	An auditor's opinion in which the auditor states that: <ul style="list-style-type: none">a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; orb. The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules and/or financial statements to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules and/or financial statements taken by themselves; orc. The audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.
USCCC	U.S. Commodity Credit Corporation.
USDA	U.S. Department of Agriculture.

