



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:

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Michigan
Office of the Auditor General
REPORT SUMMARY

Financial Audit
Including the Provisions of the Single Audit Act

Report Number:
791-0100-09

Michigan Department of Agriculture

October 1, 2006 through September 30, 2008

Released:
June 2009

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 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 Michigan Department of Agriculture's (MDA's) financial schedules.

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Internal Control Over Financial Reporting

We identified significant deficiencies in internal control over financial reporting (Findings 1 through 6). We consider Findings 1 through 3 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*. However, we did identify other instances of noncompliance (Findings 2 and 6).

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Federal Awards:

Auditor's Reports Issued on Compliance

We audited 6 programs as major programs and reported known questioned costs of \$69,746 and known and likely questioned costs of \$75,484. MDA expended a total of \$18.7 million in federal awards during the two-year period ended September 30, 2008. We issued 5 unqualified opinions and 1 adverse opinion. The opinions issued by major program are identified on the back of this summary.

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Internal Control Over Major Programs

We identified significant deficiencies in internal control over federal program compliance (Findings 7 through 12). We consider Finding 9 to be a material weakness.

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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 8 through 11). We consider Finding 9 to contain material noncompliance.

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Systems of Accounting and Internal Control:

We determined that MDA was in substantial compliance with Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws*. However, we did identify a significant deficiency related to Section 18.1485 (Finding 2). We consider this to be a material weakness in internal control.

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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
10.069	Conservation Reserve Program	Unqualified
10.169	Specialty Crop Block Grant Program	Adverse
10.913	Farm and Ranch Lands Protection Program	Unqualified
66.460	Nonpoint Source Implementation Grants	Unqualified
66.605	Performance Partnership 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>



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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 26, 2009

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

Dear Mr. Byrum and Mr. Koivisto:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Michigan Department of Agriculture (MDA) for the period October 1, 2006 through September 30, 2008.

This report contains our report summary, our independent auditor's report on the financial schedules, and the MDA 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 MDA'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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AUDITOR GENERAL

Independent Auditor's Report on the Financial Schedules

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

Dear Mr. Byrum and Mr. Koivisto:

We have audited the accompanying financial schedules of the Michigan Department of Agriculture for the fiscal years ended September 30, 2008 and September 30, 2007, 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 Michigan 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 Michigan Department of Agriculture for the fiscal years ended September 30, 2008 and September 30, 2007 on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2009 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

June 17, 2009

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

	2008	2007
REVENUES		
Taxes (Note 4)	\$ 14,918,916	\$ 19,430,827
From federal agencies	8,783,714	9,550,432
From services	2,518,009	2,918,843
From licenses and permits	10,736,304	10,149,069
Miscellaneous (Note 5)	7,190,067	4,149,462
Total revenues	\$ 44,147,010	\$ 46,198,634
OTHER FINANCING SOURCES		
Transfers from other funds (Note 3)	8,630,857	9,167,765
Total revenues and other financing sources	\$ 52,777,867	\$ 55,366,399

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

	2008	2007
SOURCES OF AUTHORIZATIONS (Note 2)		
General purpose appropriations	\$ 31,573,200	\$ 28,833,903
Balances carried forward	4,470,413	4,535,160
Restricted financing sources	53,030,818	55,346,342
Less: Intrafund expenditure reimbursements	(699,917)	(467,751)
Total	\$ 88,374,514	\$ 88,247,655
DISPOSITION OF AUTHORIZATIONS (Note 2)		
Gross expenditures and transfers out (Note 6)	\$ 83,654,601	\$ 84,125,803
Less: Intrafund expenditure reimbursements	(699,917)	(467,751)
Net expenditures and transfers out	\$ 82,954,684	\$ 83,658,052
Balances carried forward:		
Encumbrances	\$ 322,724	\$ 109,904
Restricted revenues - not authorized or used	5,080,367	4,360,509
Total balances carried forward	\$ 5,403,092	\$ 4,470,413
Balances lapsed	\$ 16,738	\$ 119,190
Total	\$ 88,374,514	\$ 88,247,655

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 Michigan Department of Agriculture (MDA) for the fiscal years ended September 30, 2008 and September 30, 2007. The financial transactions of MDA 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 MDA. The *SOMCAFR* provides more extensive disclosures regarding the State's significant accounting policies; budgeting, budgetary control, and legal compliance; 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 MDA's General Fund accounts. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either MDA 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. 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.
- c. Restricted financing sources: Collections of restricted revenues, restricted transfers, and restricted intrafund expenditure reimbursements used 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.
- d. 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. The use of the expenditure reimbursements results in the expenditure being reported in the department with the responsibility for the program. Significant intrafund expenditure reimbursements were from the Michigan Department of Environmental Quality Nonpoint Source Implementation Grants (\$323,413 and \$326,359 for fiscal years 2007-08 and 2006-07, respectively).
- e. 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.

- f. 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 licensing and inspection fees (\$2.1 million and \$1.3 million for fiscal years 2007-08 and 2006-07, respectively); groundwater and freshwater protection funds (\$0.7 million and \$0.7 million for fiscal years 2007-08 and 2006-07, respectively); and agricultural preservation funds (\$0.9 million for fiscal year 2006-07).

- g. 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 Transfers

MDA received transfers from the State Services Fee Fund of \$8.6 million in fiscal year 2007-08 and \$8.2 million in fiscal year 2006-07, in accordance with Act 128, P.A. 2007, and Act 345, P.A. 2006, respectively. In addition, MDA received transfers from the Forest Development Fund of \$1.0 million in fiscal year 2006-07 in accordance with Act 344, P.A. 2006.

Note 4 Tax Revenue

MDA receives a casino wagering tax from the three Detroit casinos. This tax is assessed at a rate of 0.5% of the adjusted gross receipts until the casinos become fully operational by opening their permanent establishment. During fiscal year 2007-08, two of the three casinos became fully operational, which resulted in a decrease in MDA's tax revenue of approximately \$4.4 million for the fiscal year.

Note 5 Miscellaneous Revenue

In fiscal year 2006-07, MDA issued Agricultural Innovation Fund (also known as the Julian-Stille Value-Added Agriculture Development Fund) grants totaling \$4.7 million for projects designed to establish, retain, expand, attract, or develop value-added agriculture processes and related agriculture production operations in the State. MDA receives reimbursement for these grants from

the Michigan Strategic Fund. These reimbursements increased MDA's miscellaneous revenue by \$2.9 million in fiscal year 2007-08.

Note 6 Related Party Transactions

MDA awarded a nonprofit organization a grant to publish an on-line newsletter to the agriculture community. The president of the nonprofit organization was also the Chair of the Michigan Commission of Agriculture in fiscal years 2007-08 and 2006-07. This grant arrangement began in October 2004, which was before the individual was appointed to be the Chair of the Commission in February 2005. The grant expenditures totaled \$11,750 in fiscal year 2007-08 and \$5,875 in fiscal year 2006-07 and were funded by restricted groundwater and freshwater protection funds.

Note 7 Subsequent Events

On February 12, 2009, Governor Granholm issued Executive Order No. 2009-4, transferring the functions of the Upper Peninsula State Fair and Board of Managers to the Department of Management and Budget (DMB) and abolishing the Board of Managers. In addition, the Executive Order transferred any and all remaining authority, powers, duties, functions, responsibilities, records, personnel, property, and unexpended balances of appropriations, allocations, or other funds of MDA under Act 89, P.A. 1927 (Sections 285.141 - 285.145 of the *Michigan Compiled Laws*) to DMB. The Executive Order is effective October 1, 2009.

On May 5, 2009, the Governor issued Executive Order No. 2009-22 implementing expenditure reductions of \$7.7 million for the Department's horse race and equine activities. The Legislature restored a portion of the \$7.7 million reduction by approving legislative transfers of \$2.6 million. The remaining \$5.1 million has a large impact on the Department's horse race and equine activities in the State of Michigan and will be offset through reduced spending on these activities for the remainder of the fiscal year ending September 30, 2009.

SUPPLEMENTAL FINANCIAL SCHEDULE

MICHIGAN DEPARTMENT OF AGRICULTURE
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2006 through September 30, 2008

For the Fiscal Year Ended September 30, 2007

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		\$ 4,408,578	\$ 95,517	\$ 4,504,095
Conservation Reserve Program	10.069		34,158	460,157	494,315
Wetlands Reserve Program	10.072				0
Federal-State Marketing Improvement Program	10.156		10,053		10,053
Market Protection and Promotion	10.163		1,683,993		1,683,993
Perishable Agricultural Commodities Act	10.165		26,199		26,199
Specialty Crop Block Grant Program	10.169		97,277		97,277
Meat, Poultry, and Egg Products Inspection	10.477		90,000		90,000
Food Safety Cooperative Agreements	10.479				0
Forest Health Protection	10.680		20,000		20,000
Rural Business Enterprise Grants	10.769		46,167		46,167
Soil and Water Conservation	10.902				0
Environmental Quality Incentives Program	10.912		7,162	229,742	236,904
Farm and Ranch Lands Protection Program	10.913		164,000	419,000	583,000
Wildlife Habitat Incentive Program	10.914				0
Conservation Security Program	10.921				0
Federal-State Inspection and Grading Service for Dairy Products	10.12-25-A-3213 (3)		25,900		25,900
Total Direct Programs			<u>\$ 6,613,487</u>	<u>\$ 1,204,416</u>	<u>\$ 7,817,903</u>
Pass-Through Programs:					
Gypsy Moth Slow the Spread Foundation, Inc. Cooperative Forestry Assistance	10.664	307106-06, 307107-07	\$ 76,947	\$	\$ 76,947
Total U.S. Department of Agriculture			<u>\$ 6,690,434</u>	<u>\$ 1,204,416</u>	<u>\$ 7,894,850</u>
<u>U.S. Environmental Protection Agency</u>					
Direct Programs:					
Performance Partnership Grants	66.605		\$ 587,982	\$ 7,418	\$ 595,400
Consolidated Pesticide Enforcement Cooperative Agreements	66.700		205,074		205,074
Total Direct Programs			<u>\$ 793,056</u>	<u>\$ 7,418</u>	<u>\$ 800,474</u>
Pass-Through Program:					
Michigan Department of Environmental Quality Nonpoint Source Implementation Grants	66.460	C9975474-07	\$ 150,000	\$ 185,870	\$ 335,870
Total U.S. Environmental Protection Agency			<u>\$ 943,056</u>	<u>\$ 193,288</u>	<u>\$ 1,136,344</u>
<u>U.S. Department of Health and Human Services</u>					
Direct Programs:					
Food and Drug Administration-Research	93.103		\$ 6,912	\$	\$ 6,912
Ruminant Feed Ban Support Project	93.449		307,418		307,418
Total Direct Programs			<u>\$ 314,330</u>	<u>\$ 0</u>	<u>\$ 314,330</u>
Pass-Through Program:					
Michigan Department of Community Health Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	251048-06	\$ 52,000	\$	\$ 52,000
Total U.S. Department of Health and Human Services			<u>\$ 366,330</u>	<u>\$ 0</u>	<u>\$ 366,330</u>
<u>U.S. Department of Labor</u>					
Direct Program:					
National Farmworker Jobs Program	17.264		\$ 22,807	\$ 120,000	\$ 142,807
Total U.S. Department of Labor			<u>\$ 22,807</u>	<u>\$ 120,000</u>	<u>\$ 142,807</u>

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2008

Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
	\$ 3,449,824	\$ 143,863	\$ 3,593,687	\$ 8,097,782
	14,404	244,169	258,573	752,888
		11,871	11,871	11,871
		15,623	15,623	25,676
	1,657,150		1,657,150	3,341,143
	25,166		25,166	51,365
	141,718		141,718	238,995
			0	90,000
	480,494		480,494	480,494
			0	20,000
			0	46,167
	4,920	221,339	226,259	226,259
	12,547	190,716	203,263	440,167
		348,000	348,000	931,000
		3,006	3,006	3,006
		4,614	4,614	4,614
	27,349		27,349	53,249
	<u>\$ 5,813,572</u>	<u>\$ 1,183,201</u>	<u>\$ 6,996,773</u>	<u>\$ 14,814,676</u>
307107-07, 307108-08	\$ 72,797	\$	\$ 72,797	\$ 149,744
	<u>\$ 5,886,369</u>	<u>\$ 1,183,201</u>	<u>\$ 7,069,570</u>	<u>\$ 14,964,420</u>
	\$ 613,900	\$ 10,000	\$ 623,900	\$ 1,219,300
	147,135		147,135	352,209
	<u>\$ 761,035</u>	<u>\$ 10,000</u>	<u>\$ 771,035</u>	<u>\$ 1,571,509</u>
C9975474-08	\$ 150,000	\$ 185,847	\$ 335,847	\$ 671,717
	<u>\$ 911,035</u>	<u>\$ 195,847</u>	<u>\$ 1,106,882</u>	<u>\$ 2,243,226</u>
	\$ 6,764	\$	\$ 6,764	\$ 13,676
	249,130		249,130	556,548
	<u>\$ 255,894</u>	<u>\$ 0</u>	<u>\$ 255,894</u>	<u>\$ 570,224</u>
	\$	\$	\$ 0	\$ 52,000
	<u>\$ 255,894</u>	<u>\$ 0</u>	<u>\$ 255,894</u>	<u>\$ 622,224</u>
	\$ 57,057	\$ 315,000	\$ 372,057	\$ 514,864
	<u>\$ 57,057</u>	<u>\$315,000</u>	<u>\$ 372,057</u>	<u>\$ 514,864</u>

MICHIGAN DEPARTMENT OF AGRICULTURE
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2006 through September 30, 2008

Federal Agency/Program	CFDA (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2007		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<u>Corporation for National Service and Community Service</u>					
Pass-Through Program:					
Michigan Community Service Commission AmeriCorps	94.006	050757-50	\$ 206,223	\$	\$ 206,223
Total Corporation for National Service and Community Service			\$ 206,223	\$ 0	\$ 206,223
Total Expenditures of Federal Awards			<u>\$ 8,228,850</u>	<u>\$ 1,517,704</u>	<u>\$ 9,746,554</u>

(1) Basis of Presentation: This schedule presents the federal grant activity of the Michigan 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) CFDA number is not available. Number derived from federal agency number and grant or contract number, if available.

Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2008			Total Expended and Distributed for the Two-Year Period
	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
050747-50	\$ 154,631	\$	\$ 154,631	\$ 360,854
	\$ 154,631	\$ 0	\$ 154,631	\$ 360,854
	<u>\$ 7,264,986</u>	<u>\$ 1,694,048</u>	<u>\$ 8,959,034</u>	<u>\$ 18,705,588</u>

INDEPENDENT AUDITOR'S REPORTS ON
INTERNAL CONTROL AND COMPLIANCE



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AUDITOR GENERAL

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

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

Dear Mr. Byrum and Mr. Koivisto:

We have audited the financial schedules of the Michigan Department of Agriculture for the fiscal years ended September 30, 2008 and September 30, 2007, as identified in the table of contents, and have issued our report thereon dated June 17, 2009. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed in the next paragraph, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with

generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial schedules that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in Findings 1 through 6 in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial schedules will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described in the third paragraph of this section, we consider Findings 1 through 3 to be material weaknesses.

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*. However, we noted other instances of noncompliance as described in the accompanying schedule of findings and questioned costs as Findings 2 and 6.

The Department's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the Department's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Michigan Commission of Agriculture, others within the Department, the Governor, 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

June 17, 2009



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
Michigan Commission of Agriculture
and
Mr. Don Koivisto, Director
Michigan Department of Agriculture
Constitution Hall
Lansing, Michigan

Dear Mr. Byrum and Mr. Koivisto:

Compliance

We have audited the compliance of the Michigan 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, 2008. 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 preceding 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.

As described in Finding 9 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding activities allowed or unallowed; allowable costs/cost principles; matching, level of effort, and earmarking; procurement and suspension and debarment; and program income that are applicable to its Specialty Crop Block Grant Program. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to that program.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the Michigan Department of Agriculture did not comply in all material respects, with the requirements referred to in the first paragraph that are applicable to the Specialty Crop Block Grant Program. Also, in our

opinion, the Michigan Department of Agriculture complied, in all material respects, with the requirements referred to in the first paragraph that are applicable to each of its other major federal programs for the two-year period ended September 30, 2008. The results of our auditing procedures also disclosed other 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 8 through 11.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Department's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 7 through 12 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies described in the preceding paragraph, we consider Finding 9 to be a material weakness.

The Department's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the Department's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Michigan Commission of Agriculture, others within the Department, the Governor, 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

June 17, 2009

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?	Yes
Significant deficiencies* 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?	Yes
Significant deficiencies* identified that are not considered to be material weaknesses?	Yes

Type of auditor's report issued on compliance for major programs:
Unqualified for all major federal programs except for Specialty Crop Block Grant Program, which is adverse*.

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
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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
10.069	Conservation Reserve Program
10.169	Specialty Crop Block Grant Program
10.913	Farm and Ranch Lands Protection Program

* See glossary at end of report for definition.

66.460 Nonpoint Source Implementation Grants

66.605 Performance Partnership Grants

Dollar threshold used to distinguish between type A and type B programs: \$561,168

Auditee qualified as a low-risk auditee*? No

Section II: Findings Related to the Financial Schedules

FINDING (7910901)

1. eWARS General Controls

The Michigan Department of Agriculture (MDA) and the Michigan Department of Information Technology (MDIT) need to improve information technology (IT) general controls over the eWARS system. Improved general controls will help ensure that MDA's payroll transactions are properly initiated, processed, and recorded in the State's accounting records. We consider this to be a material weakness.

MDA used the eWARS system as its primary system to record \$48.3 million and \$47.3 million in payroll expenditures in fiscal years 2007-08 and 2006-07, respectively. The eWARS system interfaced with the State's payroll system.

Department of Management and Budget (DMB) Administrative Guide procedure 1270.12 states that State agencies are responsible for establishing and maintaining appropriate internal control over IT systems. The procedure also states that, in coordination with the Office of Financial Management and MDIT, State agencies will develop, maintain, and monitor appropriate IT related controls. General controls help ensure the continued proper operation of IT systems. General controls also support the functioning of application controls, which ensure the completeness and accuracy of information processing.

Using industry and vendor best practices, we evaluated general controls relating to access, configuration management, and contingency planning for the eWARS system. We performed procedures to assess the effectiveness of the general

* See glossary at end of report for definition.

controls' design and to determine whether general controls had been placed in operation. Our review disclosed:

- a. MDIT needs to improve access controls over the eWARS operating system. Weak access controls may allow individuals to bypass eWARS application controls to gain access to sensitive data and programs. For example, we identified control deficiencies related to password aging, access to privileged accounts, authentication protocols, vulnerable services, access to sensitive directories and files, monitoring for security violations, and monitoring of privileged accounts and users.
- b. MDA and MDIT need to document and strengthen their procedures for controlling and monitoring eWARS users' access. Ineffective controls over eWARS users increase the likelihood that unauthorized payroll transactions will not be prevented or detected. Our review disclosed:
 - (1) MDA had not established policies and procedures for granting and removing users' access. We tested a selection of active user identification numbers and determined that 7 (35%) of 20 user identification numbers tested were for departed employees.
 - (2) MDA did not periodically recertify its employees' access to ensure that their access matched their current job responsibilities. We tested a selection of employees with privileged access and determined that 1 (25%) of 4 employees no longer required the privileged access.
 - (3) MDA and MDIT had not configured the eWARS database management system to require complex passwords. In addition, the account lockout parameters did not meet best practices.
 - (4) MDA could not provide an eWARS data dictionary and other system documentation that described the database codes and functionality associated with each user role.
 - (5) MDA and MDIT did not monitor users' access for security violations.
- c. MDA and MDIT did not periodically test MDIT's ability to restore the operating system, application programs, and data from backup. Without effective

backup and recovery controls, MDA and MDIT cannot ensure that the eWARS applications and data are recovered in the event of a disruption.

RECOMMENDATION

We recommend that MDA and MDIT improve IT general controls over the eWARS system.

FINDING (7910902)

2. Procurement of Services

MDA did not follow State financial and procurement procedures when entering into memorandums of understanding (MOUs) with a nonprofit corporation and when issuing purchase orders to a service provider. In addition, MDA did not sufficiently monitor the activity of the nonprofit corporation or service provider. As a result, at least some Select Michigan Program financial activity bypassed the State's accounting records and controls, increasing the risk that fraud, abuse, errors, or omissions could occur without MDA's knowledge. We consider this to be a material weakness.

The purpose of MDA's Select Michigan Program is to encourage retailers and consumers to purchase food grown and processed in Michigan. The Program is funded through federal grants, State funding, and support from external parties. The support from external parties (such as industry groups, organizations, businesses, universities, and growers) includes contributions and payments for marketing programs administered by the Select Michigan Program. MDA has focused the Select Michigan Program on two major geographic areas, Grand Rapids and Detroit. MDA estimated that these areas accounted for 80% of the grocery store sales for the State.

In fiscal years 2007-08 and 2006-07, MDA entered into MOUs with a nonprofit Michigan corporation to administer certain financial activities for the Select Michigan Program in the Detroit area. These financial activities, previously performed by MDA, included collecting contributions and payments from customers, paying invoices, and providing MDA with accounting reports for each promotion.

During the same time periods, MDA issued purchase orders to a service provider who was also the nonprofit corporation's president. The purchase orders were issued for marketing activities that included soliciting contributions and coordinating, designing, developing, and maintaining promotions for the Select Michigan Program in the Detroit area.

Our review of MDA's Select Michigan Program disclosed:

- a. MDA did not follow the State's accounting processes for its Select Michigan Program in the Detroit area. As a result, MDA understated the revenues and expenditures in its financial schedules by approximately \$100,000.

Part II, Chapter 1, Section 100 of the State of Michigan Financial Management Guide indicates that State accounting policy requires compliance with generally accepted accounting principles.

In addition, Section 1600.106 of the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the Governmental Accounting Standards Board, states that revenues and other financial resources are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period.

Although MDA recorded the net profit for each promotion as reported by the nonprofit corporation, it did not record the detailed financial activity of approximately \$100,000 over the two-year period in its accounting records.

- b. MDA did not enter into contracts with the nonprofit corporation that sufficiently outlined the terms and conditions of the services to be provided by both parties.

DMB Administrative Guide procedure 0510.01 requires departments to enter into a contract when purchasing professional services. This contract should outline the terms and conditions of the agreement and be signed by both parties, providing the best protection to the State.

MDA entered into MOUs that did not include items such as indemnification clauses; a complete description of the outcome, deliverables, and performance requirements; or applicable laws.

- c. MDA split purchase orders that exceeded the delegated purchasing authority of \$25,000. As a result, MDA did not perform a competitive selection process and obtain approvals through DMB and the State Administrative Board.

MDA circumvented its delegated purchasing authority by splitting purchase orders for \$24,000 and \$9,000 in fiscal year 2007-08 and for \$23,000 and \$9,000 in fiscal year 2006-07. DMB Administrative Guide procedure 0510.01 provides departments with the authority to issue one-time purchase orders for goods and services up to \$25,000. This procedure states that purchases must not be divided into separate orders with the intent to stay within the department's delegated authority. Section 18.1261 of the *Michigan Compiled Laws* requires State departments to solicit competitive bids for services exceeding \$25,000 to help ensure that the contract efficiently and effectively meets the State's needs.

- d. MDA did not sufficiently monitor the activity of the nonprofit corporation or service provider to ensure the propriety, accuracy, and completeness of the Select Michigan Program activities.

Section 18.1485 of the *Michigan Compiled Laws* requires each department to create a system of authorization and recordkeeping procedures in order to control assets, liabilities, revenues, and expenditures and to implement internal control techniques that are effective and efficient. MDA informed us that it monitored the program activity reported by the nonprofit corporation by reviewing and approving invoices from vendors and reviewing the accounting reports prepared by the nonprofit corporation for each promotion.

We noted:

- (1) The nonprofit corporation, which is responsible for administering financial activities of the Select Michigan Program for the Detroit area, paid vendor invoices for activities related to the Select Michigan Program in the Grand Rapids area. As a result, MDA processed a \$900 payment for an invoice that had already been paid by the nonprofit corporation.
- (2) The nonprofit corporation entered into related party transactions with the service provider and one other company, both of which were owned and operated by the nonprofit corporation's president. As a result, MDA could

not ensure that payments to these companies were arm's-length transactions.

- (3) MDA's MOUs with the nonprofit corporation did not specify that all program income was to be accounted for, that program activity reports were to be complete, and that proper cash handling and safeguarding procedures were to be followed. As a result, MDA could not ensure that the nonprofit corporation accounted for all program revenues.

MDA terminated the MOU with the nonprofit corporation in May 2008; however, MDA continued making payments on the purchase order for services provided from May 2008 through September 30, 2008.

The DMB Office of Internal Audit Services reported similar weaknesses to MDA in an audit report completed during our audit fieldwork.

RECOMMENDATIONS

We recommend that MDA follow State financial and procurement procedures when entering into MOUs and when issuing purchase orders to service providers.

We also recommend that MDA sufficiently monitor the activity of nonprofit corporations or service providers with whom it enters into MOUs.

FINDING (7910903)

3. Schedule of Expenditures of Federal Awards (SEFA)

MDA did not have effective internal control to ensure the accurate presentation of the SEFA in accordance with OMB Circular A-133 reporting standards. We consider this to be a material weakness.

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

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

- a. MDA did not have a process to determine the proper classification of revenue received from the federal government. OMB Circular A-133, Section 210(a), states that payments received for goods or services provided as a vendor would not be considered federal awards. Therefore, the related expenditures should not be included on the SEFA. Our review disclosed that MDA included the following expenditures on its SEFA even though the expenditures were for services provided to the federal government as a vendor:
 - (1) MDA included \$315,261 and \$345,893 of Food Sanitation Inspection vendor expenditures for fiscal years 2006-07 and 2007-08, respectively.
 - (2) MDA included \$59,470 and \$66,189 of Medicated Feed Inspection vendor expenditures for fiscal years 2006-07 and 2007-08, respectively.
 - (3) MDA included \$6,243 of Laboratory Scientist and Equipment vendor expenditures for fiscal year 2006-07.
 - (4) MDA included \$6,124 of Tissue Residue Inspection vendor expenditures for fiscal year 2006-07.
 - (5) MDA included \$1,362 of Partnership Money vendor expenditures for fiscal year 2006-07.
- b. MDA did not have an effective process to ensure that the total amount provided to subrecipients* for each federal program was accurately identified on the SEFA. OMB Circular A-133, Section 310(b)(5), requires pass-through entities* to identify the total amount provided to subrecipients for each federal program. In response to a similar finding in the prior audit report, MDA

* See glossary at end of report for definition.

indicated that it agreed with the recommendation and would comply. However, our review disclosed:

- (1) MDA incorrectly reported amounts directly expended as payments made to subrecipients for the Plant and Animal Disease, Pest Control, and Animal Care Program (*CFDA* 10.025). As a result, MDA understated expenditures directly expended and overstated expenditures distributed to subrecipients by \$260,230 for fiscal year 2006-07.
 - (2) MDA incorrectly reported payments made to subrecipients as amounts directly expended by MDA for the National Farmworker Jobs Program (*CFDA* 17.264). As a result, MDA understated expenditures distributed to subrecipients and overstated expenditures directly expended by \$315,000 for fiscal year 2007-08.
- c. MDA did not have an effective process to ensure that the SEFA included and accurately reported all federal awards expended for each federal program. OMB Circular A-133, Section 310(b)(3), requires the SEFA to include the total federal awards expended for each individual federal program and the *CFDA* number or other identifying number when the *CFDA* information is not available. In response to a similar finding in the prior audit report, MDA indicated that it agreed with the recommendation and would comply. However, our review disclosed:
- (1) MDA did not report AmeriCorps (*CFDA* 94.006) expenditures of \$206,233 on its SEFA for fiscal year 2006-07.
 - (2) MDA incorrectly presented the federal program title for \$73,725 of Environmental Quality Incentives Program (*CFDA* 10.912) expenditures by reporting the expenditures as Farm and Ranch Lands Protection Program on its SEFA for fiscal year 2006-07.

RECOMMENDATION

WE AGAIN RECOMMEND THAT MDA ENHANCE ITS INTERNAL CONTROL TO ENSURE THE ACCURATE PRESENTATION OF THE SEFA IN ACCORDANCE WITH OMB CIRCULAR A-133 REPORTING STANDARDS.

FINDING (7910904)

4. Supporting Documentation

MDA's internal control did not ensure that it maintained competitive selection and licensing documentation to support its activities. As a result, MDA could not ensure the propriety of its competitive selection process or the accuracy of its revenues.

DMB Administrative Guide procedure 0910.01 requires State agencies to manage their records properly in order to function administratively, undergo periodic audits, and provide for legal requirements. This procedure further provides requirements for maintaining a records management program and requires each State department to have a records retention schedule.

Our review disclosed:

- a. MDA did not maintain the proposals received and selection criteria results for a competitive State grant program.

Section 285.302(2) of the *Michigan Compiled Laws*, also known as the Julian-Stille Value-Added Act, requires MDA to administer an agricultural value-added grant program, which includes establishing a competitive process to award the grants. This grant program can award grants only for projects designed to establish, retain, expand, attract, or develop value-added agriculture processes and related agriculture production operations in the State.

MDA introduced the Agricultural Innovation Fund (also known as the Julian-Stille Value-Added Agricultural Development Fund) grant program in fiscal year 2005-06. The Michigan Commission of Agriculture established an evaluation committee to complete an independent, unbiased, objective, and competitive evaluation of grant proposals and provide award recommendations to the Commission. The evaluation committee was required to make award recommendations based upon the pre-established selection criteria approved by MDA and the Commission. The evaluation committee was also required to document the applicants' scores through a scoring system that included each of the selection criteria items.

In fiscal year 2006-07, MDA awarded 40 grants totaling \$4.7 million from the 234 proposals received. However, MDA did not maintain the proposals of the applicants that were not selected to receive grant funds. It also did not maintain documentation of the scoring results. Without this documentation, MDA cannot support that a competitive selection process was used or that the selected proposals were proper.

- b. MDA did not maintain documentation to support the issuance and renewal for nursery licenses.

Section 286.209 of the *Michigan Compiled Laws* requires an individual, company, or association to apply with MDA for an annual license to grow or sell nursery stock in the State. MDA requires signed applications or renewal forms and full payment of the licensing fee in order to consider the applications. MDA's records retention schedule requires the license applications and inspection reports to be maintained for four years.

MDA mistakenly disposed of the nursery applications and renewal forms for the 10-month period, October 2006 through July 2007, when it attempted to transfer the files off site. MDA issued 5,954 nursery licenses totaling approximately \$497,000 in revenue during these 10 months. Without supporting documentation, MDA cannot ensure that the fees remitted were accurate and whether the issuance of the licenses was proper.

RECOMMENDATION

We recommend that MDA improve its internal control to ensure that it maintains competitive selection and licensing documentation to support its activities.

FINDING (7910905)

5. Cash Receipting Process

MDA's internal control did not ensure proper safeguards related to its cash receipting process. As a result, MDA 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. MDA processed cash receipts of

\$22.5 million and \$20.8 million in fiscal years 2007-08 and 2006-07, 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 checks must be restrictively endorsed immediately upon receipt and cash receipts must be deposited with the State Treasurer or in a State Treasurer's bank account as often as daily, but at least weekly.

MDA receives and opens the majority of the mail that contains cash receipts in the central cashier's office. In addition, field employees and MDA's central mailroom employees who receive cash receipts send them to MDA's cashier's office for processing. In response to a cash receipts finding in the prior audit report, MDA indicated that it agreed with our recommendation to improve its internal control to help ensure proper safeguards related to its cash receipting process. To assess MDA's control over its cash receipting process, we reviewed the cash receipts for 20 days totaling \$2.0 million received from April through September 2008. Our review disclosed:

- a. MDA did not ensure that its employees restrictively endorsed checks immediately upon receipt. We noted that checks were not endorsed until they were received for processing in the cashier's office. In addition, when the number of cash receipts are high, other areas of MDA assist the cashier with processing cash receipts. In these situations, the cash receipts were removed from the secure location in the cashier's office before being restrictively endorsed.
- b. MDA did not ensure that cash receipts were deposited on a timely basis. We noted from our review of 165 cash logs that approximately \$625,000 (31%) of the \$2.0 million total cash receipts collected in the cashier's office were deposited 4 or more days after receipt, with 16 deposits taking longer than 20 days. Also, MDA 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. In order to maximize interest earnings and enhance internal control and reduce the risk of theft, cash should be deposited as close to the date of receipt as possible.

* See glossary at end of report for definition.

- c. MDA did not determine the disposition of unremitted receipts. MDA assigns sequentially numbered receipt books to its field employees. When cash is received, the field employees are required to issue a cash receipt from the receipt book and submit both the cash and the cash receipt to the central cashier's office. MDA tracked the receipt books that had been issued to the field employees and the cash receipts that were not remitted; however, it did not determine the disposition of the cash receipts that had not been remitted. Determining the disposition of unremitted cash receipts would help ensure that all cash collected is deposited with the cashier, effectively reducing the risk of fraud or misuse.

RECOMMENDATION

WE AGAIN RECOMMEND THAT MDA IMPROVE ITS INTERNAL CONTROL TO ENSURE PROPER SAFEGUARDS RELATED TO ITS CASH RECEIPTING PROCESS.

FINDING (7910906)

6. Noncompliance With State Statute

MDA did not have adequate controls to ensure compliance with State statute. As a result, MDA paid \$418,500 in advances to subrecipients for its Conservation Reserve Program and Nonpoint Source Implementation Grants Program over the two-year audit period without approval.

Section 18.1422 of the *Michigan Compiled Laws* states that an advance will not be made unless approved by the DMB director.

MDA contracted with a total of 35 subrecipients in both fiscal years 2006-07 and 2007-08. Each contract contained predetermined payment schedules that provided for advance payments at the beginning of the fiscal year and quarterly payments upon receipt of the subrecipients' quarterly expenditure reports. However, MDA did not obtain DMB approval before making any of the 35 advance payments to its subrecipients. In addition, MDA continued to make quarterly payments based on the predetermined payment schedule, regardless of the subrecipients' actual expenditures.

RECOMMENDATION

We recommend that MDA design and implement adequate controls to ensure compliance with State statute.

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 (7910907)

7. Plant and Animal Disease, Pest Control, and Animal Care, CFDA 10.025

U.S. Department of Agriculture	CFDA 10.025: Plant and Animal Disease, Pest Control, and Animal Care
Award Number: Various	Award Period: Various
	Known Questioned Costs: \$0

MDA had not established internal control to ensure that the Plant and Animal Disease, Pest Control, and Animal Care Program complied with federal laws and regulations regarding allowable costs/cost principles. Internal control that does not ensure compliance with federal program requirements could result in sanctions, disallowances, and/or future reductions in Plant and Animal Disease, Pest Control, and Animal Care Program awards.

Federal expenditures for the Plant and Animal Disease, Pest Control, and Animal Care Program totaled \$8.1 million for the two-year period ended September 30, 2008. Payroll related expenditures for the Plant and Animal Disease, Pest Control, and Animal Care Program totaled \$5.0 million, 62% of its federal expenditures, for the two-year period ended September 30, 2008.

As noted in Finding 1, MDA and MDIT need to improve IT general controls over the eWARS system. Improved general controls will help ensure that MDA's payroll

* See glossary at end of report for definition.

transactions are properly initiated, processed, and recorded in the State's accounting records.

RECOMMENDATION

We recommend that MDA improve its internal control to ensure that the Plant and Animal Disease, Pest Control, and Animal Care Program complies with federal laws and regulations regarding allowable costs/cost principles.

FINDING (7910908)

8. Conservation Reserve Program, CFDA 10.069

U.S. Department of Agriculture	CFDA 10.069: Conservation Reserve Program
Award Number: 68-5D21-4-166 68-5D21-5-39 68-5D21-8-19	Award Period: 09/17/2004 - 12/31/2010 08/26/2005 - 05/31/2008 06/01/2008 - 05/31/2009
	Known Questioned Costs: \$3,991

MDA's internal control did not ensure that the Conservation Reserve Program complied with federal laws and regulations regarding allowable costs/cost principles, reporting, and subrecipient monitoring. As a result, we identified known questioned costs of \$3,991 and known and likely questioned costs totaling \$9,729. Noncompliance with federal program requirements could result in sanctions, disallowances, and/or future reductions in Conservation Reserve Program awards.

Federal expenditures for the Conservation Reserve Program totaled \$752,888 for the two-year period ended September 30, 2008. MDA distributed \$460,157 and \$244,169 of the total program expenditures to 12 and 13 Conservation Reserve Program subrecipients in fiscal years 2006-07 and 2007-08, respectively.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

MDA's internal control did not ensure compliance with OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (Title 2,

Part 225 of the *Code of Federal Regulations* [CFR]) and OMB Circular A-133. Our review disclosed:

- (1) MDA did not have adequate documentation to support total payments made to its subrecipients. Appendix A, section C.1.j., of OMB Circular A-87 (federal regulation 2 CFR 225) requires costs charged to federal programs to be adequately documented. MDA distributed funds to 12 and 13 subrecipients in fiscal years 2006-07 and 2007-08, respectively.

We determined that MDA did not reconcile the total payment distributions with the subrecipients' annual financial statements. MDA made five equal installment payments to the subrecipients throughout each fiscal year and, as required by the grant agreement, the subrecipients submitted quarterly financial reports and annual financial statements to MDA. Our review of 10 (40%) of the 25 subrecipient files disclosed that MDA overpaid 6 (60%) and underpaid 4 (40%) subrecipients by \$14,420 and \$10,429, respectively. We identified known questioned costs of \$3,991 and known and likely questioned costs totaling \$9,729.

- (2) As noted in Finding 1, MDA and MDIT need to improve IT general controls over the eWARS system. Improved general controls will help ensure that MDA's payroll transactions are properly initiated, processed, and recorded in the State's accounting records, thus reducing the risk that transactions are unallowable.
- (3) As noted in Finding 6, MDA did not obtain approval before making advance payments to its subrecipients.

Section 18.1422 of the *Michigan Compiled Laws* states that an advance will not be made unless approved by the DMB director. Appendix A, section C.1.c., of OMB Circular A-87 (federal regulation 2 CFR 225) states that to be allowable under federal awards, costs must be authorized or not prohibited under State or local laws or regulations.

b. Reporting

MDA's internal control did not ensure compliance with the reporting requirements for the Conservation Reserve Program.

The grant agreements require financial and performance reports to be issued by the 15th of the month following the quarter reported.

MDA submitted 9 (53%) of 17 financial reports between 2 and 148 days after the due dates. In addition, MDA had not established a process to document that performance reports were submitted.

c. Subrecipient Monitoring

MDA's internal control did not ensure compliance with the subrecipient monitoring requirement for the Conservation Reserve Program in accordance with the pass-through entity responsibilities identified in OMB Circular A-133, Section 400(d). As a result, MDA 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 monitoring activities disclosed:

- (1) MDA did not have a process in place to document the receipt date of financial reports received from subrecipients. As a result, MDA could not ensure that it made payments only after receiving subrecipients' quarterly reports.

MDA's grant agreements require the submission of quarterly program and financial reports from the subrecipients. The grant agreements state that the quarterly payments will not be made until the required reports are submitted.

Our sample review of the 10 subrecipients' files disclosed that MDA did not document the receipt dates for any of the 40 (10 subrecipients times 4 quarters) financial reports required to be received from its subrecipients during our audit period. MDA has informed us that it will now date stamp all reports when received.

- (2) MDA did not consistently inform subrecipients of federal award information and requirements.

OMB Circular A-133, Section 400(d), requires that the pass-through entity inform the subrecipients of the *CFDA* title and number, award name and

number, and name of federal awarding agency; require each subrecipient 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.

Our review of the 10 grant agreements disclosed that MDA did not provide any of the subrecipients with the *CFDA* titles and numbers applicable to the grants. In addition, MDA did not provide the correct federal award number to 5 (50%) of the subrecipients.

- (3) MDA's monitoring control was not properly designed to ensure that subrecipients met the grants' earmarking requirements. Each grant contained a maximum percentage of grant funds that could be used for indirect costs and a minimum percentage of grant funds required to be spent on payroll expenditures. MDA reviewed the subrecipients' quarterly reports of expenditures. However, MDA did not follow up with 4 (40%) of the 10 subrecipients whose final reports indicated that they did not meet either of these earmarking requirements.

RECOMMENDATION

We recommend that MDA improve its internal control to ensure that the Conservation Reserve Program complies with federal laws and regulations regarding allowable costs/cost principles, reporting, and subrecipient monitoring.

FINDING (7910909)

9. Specialty Crop Block Grant Program, *CFDA* 10.169

U.S. Department of Agriculture	<i>CFDA</i> 10.169: Specialty Crop Block Grant Program
Award Number: 12-25-G-0519 12-25-B-0626	Award Period: 01/18/2007 - 01/30/2008 03/11/2008 - 03/01/2009
	Known Questioned Costs: \$65,755

MDA's internal control did not ensure that the Specialty Crop Block Grant Program complied with federal laws and regulations regarding activities allowed or unallowed;

allowable costs/cost principles; matching, level of effort, and earmarking; procurement and suspension and debarment; program income; and reporting. Our review disclosed material weaknesses in internal control and material noncompliance with compliance requirements related to activities allowed or unallowed; allowable costs/cost principles; matching, level of effort, and earmarking; procurement and suspension and debarment; and program income. As a result, we issued an adverse opinion on compliance with federal laws and regulations for the Specialty Crop Block Grant Program.

Noncompliance with federal program requirements could result in sanctions, disallowances, and/or future reductions in Specialty Crop Block Grant Program awards.

Federal expenditures for the Specialty Crop Block Grant Program totaled \$238,995 for the two-year period ended September 30, 2008. We identified known questioned costs of \$65,755.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

MDA's internal control was not effective in ensuring compliance with federal laws and regulations regarding activities allowed or unallowed.

As discussed in the Allowable Costs/Cost Principles section (part b.(1)) of this finding, MDA used Specialty Crop Block Grant Program funds to pay for unallowable payroll activities. We questioned costs in part b.(1) of this finding.

b. Allowable Costs/Cost Principles

MDA's internal control was not effective in ensuring compliance with OMB Circular A-87 (federal regulation 2 *CFR* 225) and OMB Circular A-133. Our review of payroll and contracts for the Specialty Crop Block Grant Program disclosed:

- (1) MDA charged unallowable payroll costs to the Program. As a result, we identified known questioned costs of \$18,605.

Appendix A, sections C.1.a and C.1.b, of OMB Circular A-87 (federal regulation 2 *CFR* 225) require that costs charged to federal programs be necessary and allocable to the grant, respectively.

MDA charged \$18,605 in fiscal year 2006-07 for one employee's time for 7 (35%) of 20 pay periods that we reviewed. MDA informed us that this employee was expected to be transitioning to work on the Specialty Crop Block Grant Program but was still working in another activity during these pay periods.

- (2) As noted in Finding 2, MDA did not follow State financial and procurement procedures when entering into an MOU with a nonprofit corporation and when issuing purchase orders to a service provider. In addition, MDA did not sufficiently monitor the activity of the nonprofit corporation or service provider. As a result, at least some Select Michigan Program financial activity bypassed the State's accounting records and controls, increasing the risk that fraud, abuse, errors, or omissions could occur without MDA's knowledge. Appendix A, section C.1.c., of OMB Circular A-87 (federal regulation 2 *CFR* 225) states that, to be allowable under federal awards, costs must be authorized or not prohibited under State or local laws or regulations. We identified known questioned costs of \$45,000 for the federally funded portion of these contracts.
- (3) MDA did not follow its purchasing procedures for 2 of 4 contracts reviewed. As a result, we identified known questioned costs of \$2,150.

MDA procedure 17 requires that the contract administrator review contractor invoices to ensure that they meet the terms of the contract. Our review of these contracts disclosed:

- (a) MDA made two payments each for \$125 more than allowed in one of the contracts. In addition, MDA overpaid this same contract by \$1,000 because it did not follow the terms of the contract and paid for 4 services within one month when the contract only allowed for 2 services. We identified total known questioned costs of \$1,250 for this contract.

(b) MDA did not follow the funding terms of one contract. MDA funded \$900 of expenditures with the Specialty Crop Block Grant Program funds. However, the contract stated that 100% of the expenditures should be funded with State restricted funds. As a result, we identified known questioned costs of \$900 for this contract.

(4) As noted in Finding 1, MDA and MDIT need to improve IT general controls over the eWARS system. General controls help ensure the continued proper operation of IT systems and support the functioning of application controls, which ensure the completeness and accuracy of information processing.

c. Matching, Level of Effort, and Earmarking

MDA did not have a process for ensuring that it complied with federal requirements relating to level of effort. As a result, we noted that MDA supplanted State restricted funds with federal funds in the Select Michigan Program.

The Specialty Crop Competitiveness Act of 2004 requires that grant funds supplement the expenditure of State funds in support of specialty crops rather than replace State funds.

Our review of revenues and expenditures that funded the Select Michigan Program for fiscal year 2005-06 through fiscal year 2007-08 disclosed that the percentage of State resources used in the Program decreased after MDA received its Specialty Crop Block Grant Program award in fiscal year 2007-08. We determined that, from fiscal year 2005-06 to fiscal year 2007-08, the percentage of State-funded revenue decreased from 69% to 36% and the percentage of State-funded expenditures decreased from 62% to 33%. Conversely, during that same period, the percentage of federal revenues from the Specialty Crop Block Grant Program increased from 0% to 64% and federal expenditures increased from 0% to 67%.

d. Procurement and Suspension and Debarment

As discussed in the Allowable Costs/Cost Principles section (part b.(2)) of this finding, MDA did not follow State procurement procedures when issuing purchase orders to a service provider. We identified known questioned costs of \$45,000 in part b.(2) of this finding.

Appendix A, section C.1.c., of OMB Circular A-87 (federal regulation 2 *CFR* 225) states that to be allowable under federal awards, costs must be authorized or not prohibited under State or local laws or regulations, including State procurement procedures.

e. Program Income

MDA did not have a process for ensuring compliance with federal laws and regulations regarding program income for the Specialty Crop Block Grant Program. As a result, MDA did not properly identify some private industry support funds as program income.

Federal regulation 7 *CFR* 3016.25(g)(2) requires grantees to supplement federal grant funding with program income.

MDA and the nonprofit corporation collected approximately \$311,000 in industry support funds; however, MDA cannot determine the portion of these funds that were collected as program income related to the Specialty Crop Block Grant Program.

f. Reporting

MDA did not report private industry support funds as program income in its final financial status reports for the Select Michigan Program for fiscal years 2006-07 and 2007-08.

Federal regulation 7 *CFR* 3016.41(b) requires each grantee to report program outlays and program income on its financial status report.

As discussed in the Program Income section (part e.) of this finding, MDA did not have a process for ensuring compliance with federal laws and regulations regarding program income for the Specialty Crop Block Grant Program. Our review of the final performance reports for the Select Michigan Program disclosed that MDA used private industry funds for grant activities. However, MDA did not report the private industry funds in the Specialty Crop Block Grant Program performance report or as program income on the final financial status reports for fiscal years 2006-07 and 2007-08.

RECOMMENDATION

We recommend that MDA improve its internal control to ensure that the Specialty Crop Block Grant Program complies with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; matching, level of effort, and earmarking; procurement and suspension and debarment; program income; and reporting.

FINDING (79109010)

10. 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 73-5D21-5-50	Award Period: 09/19/2002 - 09/30/2008 07/14/2003 - 09/30/2008 09/18/2003 - 09/30/2008 09/22/2004 - 09/30/2009 06/02/2005 - 09/30/2007
	Known Questioned Costs: \$0

MDA's internal control did not ensure that the Farm and Ranch Lands Protection Program complied with federal laws and regulations regarding 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.

Federal expenditures for the Farm and Ranch Lands Protection Program totaled \$931,000 for the purchases of five land easements for the two-year period ended September 30, 2008.

The National Resources Conservation Service (NRCS), U.S. Department of Agriculture, provides Farm and Ranch Lands Protection Program awards to aid recipients in the purchase of conservation easements. The U.S. Commodity Credit Corporation (CCC) administers the funds on behalf of NRCS by entering into a cooperative agreement with MDA when land has been identified for this purpose.

As a result of three cooperative agreements entered into between September 2002 and September 2003 and two cooperative agreements entered into between

September 2004 and June 2005, MDA purchased five land easements during the two-year period ended September 30, 2008. Our review of the conservation easements disclosed:

- a. MDA did not submit the Internal Revenue Service (IRS) form and the current appraisal for the conservation easements purchased under the 2002 and 2003 cooperative agreements. In addition, MDA did not refer to these items in its transmittal letter certifying NRCS payments received.

The 2002 and 2003 agreements required MDA to include the following information related to the easements when submitting its request for reimbursement of funds (SF-270): (1) cooperative agreement number; (2) conservation easement number; (3) total amount of dollars paid to the landowner for the conservation easement, specifying the CCC share and the non-CCC share of the conservation easement cost; (4) acres acquired; (5) copy of the conservation easement deed that contains the contingent right clause as described in the cooperative agreement; and (6) Internal Revenue Service (IRS) form 8283 and a current appraisal when a landowner donation is accepted as part of the entity's matching offer. The cooperative agreements also require MDA to certify NRCS payments received by submitting a transmittal letter referring to this same information.

- b. MDA did not submit the current appraisal, the landowner name, or the confirmation of matching funds for the conservation easements purchased under the 2004 and 2005 cooperative agreements. In addition, MDA did not refer to the landowner name, the confirmation of matching funds, and the NRCS payment in its transmittal letter certifying NRCS payments received.

The 2004 and 2005 cooperative agreements required MDA to include the following information related to the easements when submitting its request for reimbursement of funds (SF-270): (1) the term of the conservation easement; (2) appropriate title assurances; (3) current appraisal conducted in accordance with Uniform Appraisal Standards for Federal Land Acquisitions (UASFLA) or Uniform Standards of Professional Appraisal Practice (USPAP) standards; (4) cooperative agreement number; (5) conservation easement number; (6) landowner name; (7) landowner's tax identification number (TIN) or social security number; (8) total amount of dollars paid to the landowner for each conservation easement, specifying the CCC share and the non-CCC share of

the conservation easement cost; (9) acres acquired; (10) copy of the conservation easement deed that contains the contingent rights clause as described in the agreement; and (11) NRCS confirmation of matching funds (CPA-230). The cooperative agreements also require MDA to certify NRCS payments received by submitting a transmittal letter referring to items (4) through (11) and the date when the NRCS payment was received.

In response to a similar finding in the prior audit report, MDA indicated that it agreed with the recommendation and would comply. However, MDA informed us that the change in requirements between the different cooperative agreements and the fact that some items were not readily available impacted its ability to comply.

RECOMMENDATION

WE AGAIN RECOMMEND THAT MDA IMPROVE ITS INTERNAL CONTROL TO ENSURE THAT THE FARM AND RANCH LANDS PROTECTION PROGRAM COMPLIES WITH FEDERAL LAWS AND REGULATIONS REGARDING SPECIAL TESTS AND PROVISIONS.

FINDING (7910911)

11. Nonpoint Source Implementation Grants, CFDA 66.460

U.S. Environmental Protection Agency	CFDA 66.460: Nonpoint Source Implementation Grants
Pass-Through Identification Numbers: C9975474-07 C9975474-08	Award Period: 10/01/2006 - 09/30/2007 10/01/2007 - 09/30/2008
Pass-Through Entity: Michigan Department of Environmental Quality	Known Questioned Costs: \$0

MDA's internal control did not ensure that the Nonpoint Source Implementation Grants Program complied with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; procurement and suspension and debarment; reporting; and subrecipient monitoring. 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 \$671,717 for the two-year period ended September 30, 2008. MDA received these funds through two MOUs agreed to in each fiscal year with the Michigan Department of Environmental Quality (DEQ). MDA distributed \$185,870 and \$185,847 of the total program expenditures to five Nonpoint Source Implementation Grant Program subrecipients in fiscal years 2006-07 and 2007-08, respectively.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

MDA's internal control did not ensure that expenditures incurred were for activities allowed. As discussed in the Allowable Costs/Cost Principles section (part b.) of this finding, MDA used Nonpoint Source Implementation Grants Program funds to pay for unallowable payroll activities.

b. Allowable Costs/Cost Principles

MDA's internal control did not ensure compliance with OMB Circular A-87 (federal regulation 2 *CFR* 225) and OMB Circular A-133. In response to a prior audit finding related to allowable costs/cost principles, MDA indicated that it agreed with the recommendation and would comply. However, our review disclosed:

- (1) MDA did not ensure that its eWARS payroll system was properly designed to ensure that only allowable payroll costs were charged to the federal program. The eWARS system allocated employees' time entries based on predetermined coding assigned to the employees rather than allocating the time based on the actual activities worked on by the employees.

Our sample of 60 time sheets disclosed that 2% of the hours charged to the program were for unallowable payroll costs. Payroll costs related to the Right to Farm Program, the Intercounty Drain Program, and general activities were charged to the Nonpoint Source Implementation Grants Program and charged as matching funds throughout the audit period. The MOUs with DEQ relate to MDA's Michigan Agriculture Environmental Assurance Program (MAEAP). MAEAP's mission is to develop and promote voluntary, proactive, cost-effective pollution prevention practices

in the agricultural industry. The payroll activities charged do not relate to this mission.

- (2) As noted in Finding 1, MDA and MDIT need to improve IT general controls over the eWARS system. Improved general controls will help ensure that MDA's payroll transactions are properly initiated, processed, and recorded in the State's accounting records.
- (3) MDA did not restrict payroll approval capabilities to only the individuals with supervisory responsibilities. As a result, we identified 8 (13%) of 60 sampled time sheets that were not properly approved. Appendix B, subsection 8.h(1), of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires that charges to federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practices of the governmental unit and approved by a responsible official of the governmental unit.

c. Procurement and Suspension and Debarment

MDA'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 State from awarding grants to individuals or organizations that have been suspended or debarred or otherwise excluded from doing business with the federal government.

MDA requires a certification form to be included in each grant agreement with a subrecipient to document 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. After signing the grant agreement, the subrecipient returns the grant agreement and certification form to MDA for review and approval. Even though our review of the federal suspension and debarment list did not identify any of the subrecipients, we noted that 1 (10%) of the 10 subrecipient's grant agreements, effective during our audit period, did not include this certification form.

In response to a similar finding in the prior audit report, MDA indicated that it agreed with the recommendation and would comply.

d. Reporting

MDA's internal control did not ensure that it submitted program and financial reports for the Nonpoint Source Implementation Grants Program in a timely manner. MDA's untimely financial reporting resulted in \$5,186 of lost interest.

The MOUs with DEQ require MDA to submit, to DEQ's project officer, program and financial reports by due dates specified in the MOUs. The quarterly reports provide DEQ with the ability to seek reimbursement from the federal agency.

In response to a similar finding in the prior audit report, MDA indicated that it agreed with the recommendation and would comply. However, MDA submitted 7 (44%) of the 16 required financial reports to DEQ from 8 to 229 days after their due dates. In 6 (86%) of the 7 instances, MDA informed us that it did not submit its financial reports to DEQ on a timely basis because the MOUs were not signed until after the required quarterly reporting dates. These MOUs were signed from 281 to 304 days after the MOUs' effective dates.

e. Subrecipient Monitoring

MDA's internal control did not ensure compliance with the subrecipient monitoring requirement for the Nonpoint Source Implementation Grants Program in accordance with the pass-through entity responsibilities identified in OMB Circular A-133, Section 400(d). As a result, MDA 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 monitoring activities disclosed:

- (1) MDA did not always follow its process for documenting the receipt date of financial reports received from subrecipients. As a result, MDA could not ensure that its subrecipients submitted all quarterly reports on a timely basis.

MDA's grant agreements require the submission of quarterly program and financial reports from the subrecipients. The grant agreements state that the quarterly payments will not be made until the required reports are submitted.

Our review disclosed that MDA did not document the receipt dates for 9 (23%) of the 40 financial reports required to be received from its subrecipients during our audit period. In response to a similar finding in the prior audit report, MDA indicated that it agreed with the recommendation and would comply. MDA has informed us that it will now date stamp all reports when received.

- (2) MDA did not consistently inform subrecipients of federal award information and requirements.

OMB Circular A-133, Section 400(d), requires that the pass-through entity inform the subrecipients of the *CFDA* title and number, award name and number, name of federal awarding agency; require each subrecipient 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.

In response to a similar finding in the prior audit report, MDA indicated that it agreed with the recommendation and would comply. However, our review of the 10 subrecipient files disclosed:

- (a) MDA did not provide 1 (10%) of its 10 subrecipients with the *CFDA* title and number and the name of the federal awarding agency and did not notify the subrecipient of requirements imposed by laws, regulations, and provisions of the grant agreement.
- (b) MDA did not provide 6 (60%) of the 10 subrecipients with the federal award name and number.
- (c) MDA provided 5 (50%) of the 10 subrecipients with the wrong *CFDA* title and number.

- (d) MDA provided 4 (40%) of the 10 subrecipients with the wrong federal award number.
- (3) MDA did not ensure that its subrecipients met audit requirements. OMB Circular A-133, Section 400(d), requires the pass-through entity to ensure that all subrecipients expending \$500,000 or more in federal funds during their fiscal year have met the audit requirements of OMB Circular A-133. MDA requires that all subrecipients complete a Single Audit* certification form and verifies that all necessary forms have been completed and returned. However, we determined that MDA did not obtain a Single Audit certification form from 1 (10%) of its 10 subrecipients.
- (4) MDA's monitoring control was not properly designed to ensure that subrecipients met the grants' earmarking requirements. Each grant contained a maximum percentage of grant funds that could be used for indirect costs and a minimum percentage of grant funds required to be spent on payroll expenditures. MDA reviewed the subrecipients' quarterly reports of expenditures. However, MDA did not follow up with 4 (40%) of the 10 subrecipients whose final reports indicated that they did not meet either of these earmarking requirements.

RECOMMENDATIONS

We recommend that MDA improve its internal control to ensure that the Nonpoint Source Implementation Grants Program complies with federal laws and regulations regarding activities allowed or unallowed.

WE AGAIN RECOMMEND THAT MDA 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.

* See glossary at end of report for definition.

FINDING (7910912)

12. Performance Partnership Grants, CFDA 66.605

U.S. Environmental Protection Agency	CFDA 66.605: Performance Partnership Grants
Award Number: BG-00533307 BG-00533308	Award Period: 10/01/2006 - 09/30/2007 10/01/2007 - 09/30/2008
	Known Questioned Costs: \$0

MDA had not established internal control to ensure that the Performance Partnership Grants Program complied with federal laws and regulations regarding allowable costs/cost principles. Internal control that does not ensure compliance with federal program requirements could result in sanctions, disallowances, and/or future reductions in Performance Partnership Grants Program awards.

Federal expenditures for the Performance Partnership Grants Program totaled \$1.2 million for the two-year period ended September 30, 2008. Payroll related expenditures for the Performance Partnership Grants Program totaled \$1.0 million, 81% of its federal expenditures, for the two-year period ended September 30, 2008.

As noted in Finding 1, MDA and MDIT need to improve IT general controls over the eWARS system. Improved general controls will help ensure that MDA's payroll transactions are properly initiated, processed, and recorded in the State's accounting records.

RECOMMENDATION

We recommend that MDA improve its internal control to ensure that the Performance Partnership Grants Program complies with federal laws and regulations regarding allowable costs/cost principles.

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

MICHIGAN DEPARTMENT OF AGRICULTURE
Summary Schedule of Prior Audit Findings
As of June 17, 2009

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2004 through September 30, 2006
Finding Number: 7910701
Finding Title: Internal Auditor and Biennial Internal Control Assessment

Finding: 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.

Agency Comments: The Department complied with this recommendation through the transfer of its security functions to the Department of Management and Budget. In addition, the Department included all key business processes in its biennial internal control assessment for the period ended September 30, 2006.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 2004 through September 30, 2006
Finding Number: 7910702
Finding Title: Cash Receipts

Finding: The Department's internal control did not ensure proper separation of duties and other safeguards related to its cash receipting process.

Agency Comments: The Department segregated mail with remittances into separate post office boxes and controlled the opening of mail with receipts.

It is continuing to pursue additional improvements over cash controls. The Department has drafted a policy and procedure to implement the changes.

Audit Period: October 1, 2004 through September 30, 2006
Finding Number: 7910703
Finding Title: Schedule of Expenditures of Federal Awards (SEFA)

Finding: 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 the U.S. Office of Management and Budget (OMB) Circular A-133.

Agency Comments: The Department prepared a procedure to document its process for preparing the SEFA. The Department will make additional improvements to this procedure to properly identify and classify all expenditures required to be reported on the SEFA.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings Not Corrected or Partially Corrected:

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.

Agency Comments: The Department will modify its procedures to ensure that all documentation related to the suspension and debarment requirements is obtained.

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, *Audits of States, Local Governments, and Non-Profit Organizations*.

Agency Comments: See comments to Finding 790504.

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 OMB Circular A-133.

Agency Comments: The Department will modify its procedures to ensure that proper federal award information is provided to each grant recipient. The Department will also monitor subrecipients' compliance with audit requirements.

Audit Period: October 1, 2004 through September 30, 2006
Finding Number: 7910704
Finding Title: Farm and Ranch Lands Protection Program, *CFDA* 10.913

Finding: 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.

Agency Comments: The Department complied with the recommendation related to procurement and suspension and debarment. The Department obtained a Web site from the U.S. Department of Agriculture to use to determine if a development rights purchase participant was suspended or debarred from participating in the program. The Department will improve its process related to special tests and provisions by ensuring that all required information is included in the transmittal letter when certifying payments.

Audit Period: October 1, 2004 through September 30, 2006

Finding Number: 7910705

Finding Title: Nonpoint Source Implementation Grants, *CFDA* 66.460

Finding: 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.

Agency Comments: The Department implemented a process to verify that adequate documentation exists to support payments to subrecipients quarterly, yearly, and after the subrecipient's audit. The Department has implemented a new process for the federal grants program designed to help ensure compliance with federal laws and regulations regarding allowable costs/cost principles, procurement and suspension and debarment, reporting, and subrecipient monitoring. In addition, a statement is now included in all federal grants issued in regard to audit charges in accordance with OMB Circular A-133 requirements or not required in accordance with OMB Circular A-133.

MICHIGAN DEPARTMENT OF AGRICULTURE

Corrective Action Plan

As of June 15, 2009

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Finding Number: 7910901

Finding Title: eWARS General Controls

Management Views: The Michigan Department of Agriculture (MDA) agrees with the finding.

Planned Corrective Action: MDA, in consort with the Michigan Department of Information Technology (MDIT), will correct procedural, access, documentation, security monitoring, and backup/recovery weaknesses to improve information technology general controls over the eWARS system.

Anticipated Completion Date: September 1, 2010

Responsible Individuals: Jeanne Irwin - MDIT
David Bruce and Tom Benner - MDA

Finding Number: 7910902

Finding Title: Procurement of Services

Management Views: MDA agrees and will comply with the findings and recommendations.

Planned Corrective Action: MDA's Agriculture Development Division will comply with both Statewide procurement and State Administrative Board procedures, along with enhancing its internal control and financial management environments. Appropriate adherence to

MDA's memorandum of understanding protocol will occur, along with inclusion of all financial activity into the State's accounting system.

Anticipated Completion Date: October 1, 2009

Responsible Individuals: Robert Craig and David Bruce

Finding Number: 7910903

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

Management Views: MDA agrees to enhance its internal control to ensure accurate presentation of the SEFA.

Planned Corrective Action: MDA has begun corrective action by developing a detailed procedure to correctly screen and classify relationships with the federal awarding agency. Preparation procedures for the fiscal year 2008-09 SEFA will ensure proper controls are in place for accurate inclusions, titles, and U.S. Office of Management and Budget Circular A-133 reporting standards.

Anticipated Completion Date: February 1, 2010

Responsible Individual: Rick Harper

Finding Number: 7910904

Finding Title: Supporting Documentation

Management Views: MDA agrees with the finding.

Planned Corrective Action: MDA will maintain files of supporting documentation for both awarded and nonawarded proposals. Staff will ensure that records are maintained according to

the approved records retention schedule and work with the Department of Management and Budget to modify retention schedules as allowable in order to meet both program and audit needs.

Anticipated Completion Date: October 1, 2009

Responsible Individuals: Robert Craig and Sandy Winans

Finding Number: 7910905

Finding Title: Cash Receipting Process

Management Views: MDA agrees with the finding.

Planned Corrective Action: MDA has improved cash receipting since the prior audit, including eliminating deficiencies related to security access over receipts and mailroom practices. MDA is committed to making timely deposits.

a. Restrictively endorsing checks:

- MDA corrected the lack of endorsement on checks collected in the field as of December 8, 2008 by issuing restricted endorsement stamps.
- MDA will endorse checks bound for L2000 System processing in a secured area.
- MDA will not ordinarily duplicate endorsements on checks going through the Revenue Processing System, which are endorsed systematically.
- MDA will endorse Revenue Processing System and L2000 System batches before moving to unsecured areas for processing.

- b. Timeliness of deposits:
 - MDA will improve the timely processing of inbound revenue by monitoring incoming work loads, backlogs, and schedule staff accordingly.
 - MDA will deposit the cash as close to the date of receipt as possible.

- c. Receipt books:

MDA will investigate the value of receipts coming from the field and follow up on missing receipts.

Anticipated Completion Date: October 1, 2009

Responsible Individual: Louis Martin

Finding Number: 7910906

Finding Title: Noncompliance With State Statute

Management Views: MDA agrees with the need to implement controls to ensure statute compliance.

Planned Corrective Action: The Environmental Stewardship Division will still make advances to subrecipients but under two conditions. First, the Division will establish a review and approval process for qualification of those locations needing an advance. Second, a letter to the Department of Management and Budget will be written yearly notifying it of intent to advance funds.

Anticipated Completion Date: September 30, 2010

Responsible Individuals: Jim Johnson and Stephen Shine

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 7910907
Finding Title: Plant and Animal Disease, Pest Control, and Animal Care, *CFDA* 10.025

Management Views: MDA agrees with the finding.

Planned Corrective Action: MDA, in consort with MDIT, will correct procedural, access, documentation, security monitoring, and backup/recovery weaknesses to improve information technology general controls over the eWARS system. These system changes will ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

Anticipated Completion Date: September 1, 2010

Responsible Individuals: Jeanne Irwin - MDIT
David Bruce and Tom Benner - MDA

Finding Number: 7910908
Finding Title: Conservation Reserve Program, *CFDA* 10.069

Management Views: MDA agrees with the components of this finding.

Planned Corrective Action: MDA has implemented appropriate controls to ensure proper oversight of federal cost principles, reporting, and subrecipient monitoring.

Anticipated Completion Date: Complied

Responsible Individuals: Jim Johnson and Stephen Shine

Finding Number: 7910909
Finding Title: Specialty Crop Block Grant Program, *CFDA* 10.169

Management Views: MDA agrees with the need to improve internal control within the Specialty Crop Block Grant Program in order to comply with federal laws and regulations.

MDA disagrees with the findings in parts e. and f. relative to program income.

Planned Corrective Action: MDA will strengthen internal control in the Specialty Crop Block Grant Program to comply with federal laws and regulations relative to activities allowed or unallowed; allowable costs/cost principles; matching, level of effort, and earmarking; and procurement and suspension and debarment.

Anticipated Completion Date: September 30, 2010

Responsible Individual: Robert Craig

Finding Number: 7910910
Finding Title: Farm and Ranch Lands Protection Program, *CFDA* 10.913

Management Views: MDA agrees with the finding.

Planned Corrective Action: MDA's corrective action will be to provide those documents now required in the cooperative agreement or in the alternative and to request documentation from the U.S. Department of Agriculture National Resources Conservation Service waiving the requirement to submit those documents.

Anticipated Completion Date: Effective with the next applicable easement purchase.

Responsible Individuals: Jim Johnson, Mark Swartz, and Richard Harlow

Finding Number: 7910911

Finding Title: Nonpoint Source Implementation Grants,
CFDA 66.460

Management Views: MDA agrees with the recommendation and is in the process of complying.

Planned Corrective Action: The Environmental Stewardship Division has implemented many of the components and recommendations and will continue to improve oversight of these federal funds.

Anticipated Completion Date: September 1, 2010

Responsible Individuals: Jim Johnson and Stephen Shine

Finding Number: 7910912

Finding Title: Performance Partnership Grants, *CFDA 66.605*

Management Views: MDA agrees with the finding.

Planned Corrective Action: MDA, in consort with MDIT, will correct procedural, access, documentation, security monitoring, and backup/recovery weaknesses to improve information technology general controls over the eWARS system. These system changes will ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

Anticipated Completion Date: September 1, 2010

Responsible Individuals: Jeanne Irwin - MDIT
David Bruce and Tom Benner - MDA

GLOSSARY

Glossary of Acronyms and Terms

adverse opinion	An auditor's opinion in which the auditor states that the audited agency did not comply, in all material respects, with the cited requirements that are applicable to each major federal program.
CCC	U.S. Commodity Credit Corporation.
<i>CFDA</i>	<i>Catalog of Federal Domestic Assistance.</i>
<i>CFR</i>	<i>Code of Federal Regulations.</i>
control deficiency in internal control over federal program compliance	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis noncompliance with a type of compliance requirement of a federal program.
control deficiency in internal control over financial reporting	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.
DEQ	Michigan Department of Environmental Quality.
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 presented fairly in all material respects in conformity with the disclosed basis of accounting.
internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide

reasonable assurance about the achievement of the entity's objectives with regard to 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 MDA 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.

MAEAP Michigan Agriculture Environmental Assurance Program.

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 noncompliance Violations of laws, regulations, contracts, and grants that could have a direct and material effect on major federal programs or on financial schedule and/or financial statement amounts.

material weakness in internal control over federal program compliance A significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected.

material weakness in internal control over financial reporting	A significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial schedules and/or financial statements will not be prevented or detected.
MDA	Michigan Department of Agriculture.
MDIT	Michigan Department of Information Technology.
MOU	memorandum of understanding.
NRCS	National Resources Conservation Service.
OMB	U.S. Office of Management and Budget.
other noncompliance	Violations of contracts or grant agreements that are not material to the financial schedules or financial statements but should be communicated to management in accordance with <i>Government Auditing Standards</i> . Other noncompliance also includes violations of laws, regulations, contracts, or grant agreements; fraud; abuse; or other internal control deficiencies that may be communicated to management in accordance with <i>Government Accounting Standards</i> .
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.

SEFA

schedule of expenditures of federal awards.

significant deficiency
in internal control over
federal program
compliance

A control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected.

significant deficiency
in internal control over
financial reporting

A control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial schedules and/or financial statements that is more than inconsequential will not be prevented or detected.

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.

SOMCAFR

State of Michigan Comprehensive Annual Financial Report.

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:

- 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; or
- b. 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; or
- c. The audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.

