

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

DEPARTMENT OF AGRICULTURE

October 1, 1996 through September 30, 1998

EXECUTIVE DIGEST

DEPARTMENT OF AGRICULTURE

INTRODUCTION

This report contains the results of our financial audit*, including the provisions of the Single Audit Act, of the Department of Agriculture for the period October 1, 1996 through September 30, 1998.

AUDIT PURPOSE

This financial audit of the Department was conducted as part of the constitutional responsibility of the Office of the Auditor General and is required on a biennial basis by Act 251, P.A. 1986, to satisfy the requirements of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

BACKGROUND

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

Executive Order 1997-13, effective October 14, 1997, transferred the Michigan State Fair and Exposition Center

* See glossary at end of report for definition.

from the Department of Consumer and Industry Services to the Department of Agriculture.

The Department's Finance and Technology Division is responsible for the Department's accounting and financial reporting. Responsibilities related to administration of the Department's federal grants are shared by the operational divisions.

The Department's expenditures and operating transfers for the fiscal years ended September 30, 1998 and September 30, 1997 were \$64.0 million and \$66.3 million, respectively. As of September 30, 1998, the Department had 674 employees, of which 134 were seasonal employees.

**AUDIT OBJECTIVES
AND CONCLUSIONS**

Audit Objective: To audit the Department's financial schedules, including the schedule of expenditures of federal awards, for the fiscal years ended September 30, 1998 and September 30, 1997.

Conclusion: We expressed an unqualified opinion on the Department's financial schedules.

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

* See glossary at end of report for definition.

Conclusion: Our assessment of compliance did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses*. However, we identified reportable conditions* related to personnel and payroll functions, the internal audit function, indirect cost* recovery accounting, cash management, and procurement card* usage (Findings 1 through 5).

In addition, our assessment indicated that the Department was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control. However, we identified a reportable condition related to the internal audit function (Finding 2).

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

Conclusion: Our assessment of compliance applicable to each major federal program disclosed instances of noncompliance related to federal financial reporting, personnel-payroll cost distributions, and Cooperative Forestry Assistance grant applications that are required to be reported under OMB Circular A-133 (Findings 6 through 8). However, our assessment of internal control over compliance applicable to each major federal program did not disclose any material weaknesses. We did identify reportable conditions related to federal financial reporting,

* See glossary at end of report for definition.

personnel-payroll cost distributions, Cooperative Forestry Assistance grant applications, personnel and payroll functions, and procurement card usage (Findings 6 through 10).

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Department of Agriculture for the period October 1, 1996 through September 30, 1998. Our audit was conducted in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

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

Our audit report contains 8 findings and 8 corresponding recommendations. The Department's corrective action plan indicates that it agrees with the recommendations and plans to implement 6 of them.

As disclosed in the Department's summary schedule of prior audit findings, the Department complied with 6 of the 7 prior Single Audit* recommendations related to the 5 prior audit findings. One of the prior recommendations is repeated in this report.

* See glossary at end of report for definition.

Ms. Deanna Stamp, Chairperson
Commission of Agriculture
and
Mr. Dan Wyant, Director
Department of Agriculture
Ottawa Building
Lansing, Michigan

Dear Ms. Stamp and Mr. Wyant:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Agriculture for the period October 1, 1996 through September 30, 1998.

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

Our findings and recommendations are organized by audit objective. The agency preliminary responses are contained in the corrective action plan. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

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Description of Agency

The Department of Agriculture was created by Act 13, P.A. 1921 (Sections 285.1 - 285.7 of the *Michigan Compiled Laws*). The Department's mission is to promote and protect the agricultural interests of the people of the State of Michigan.

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

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

During our audit period, the Governor issued Executive Order 1997-13, effective October 14, 1997. This Executive Order transferred the Michigan State Fair and Exposition Center from the Department of Consumer and Industry Services to the Department of Agriculture. The activities of the Michigan State Fair and Exposition Center are accounted for in the General Fund and are reported on and audited separately by the Office of the Auditor General.

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

The Department's expenditures and operating transfers for the fiscal years ended September 30, 1998 and September 30, 1997 were \$64.0 million and \$66.3 million, respectively. As of September 30, 1998, the Department had 674 employees, of which 134 were seasonal employees.

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

Audit Objectives and Conclusions

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

1. To audit the Department's financial schedules, including the schedule of expenditures of federal awards, for the fiscal years ended September 30, 1998 and September 30, 1997.

We expressed an unqualified opinion on the Department's financial schedules.

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

Our assessment of compliance did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses. However, we identified reportable conditions related to personnel and payroll functions, the internal audit function, indirect cost recovery accounting, cash management, and procurement card usage (Findings 1 through 5).

In addition, our assessment indicated that the Department was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control. However, we identified a reportable condition related to the internal audit function (Finding 2).

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

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

Our assessment of compliance applicable to each major federal program disclosed instances of noncompliance related to federal financial reporting, personnel-payroll cost distributions, and Cooperative Forestry Assistance grant applications that are required to be reported under OMB Circular A-133 (Findings 6 through 8). However, our assessment of internal control over compliance applicable to each major federal program did not disclose any material weaknesses. We did identify reportable conditions related to federal financial reporting, personnel-payroll cost distributions, Cooperative Forestry Assistance grant applications, personnel and payroll functions, and procurement card usage (Findings 6 through 10).

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

Audit Scope

Our audit scope was to examine the financial and other records of the Department of Agriculture for the period October 1, 1996 through September 30, 1998. Our audit was conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

We considered the Department's internal control over compliance applicable to each major federal program and assessed the Department's compliance with federal laws

* See glossary at end of report for definition.

and regulations in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, in addition to generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. In addition, we followed up on the Department's summary schedule of prior audit findings. The Department's major federal programs are identified in Section I of the schedule of findings and questioned costs.

Agency Responses and Prior Audit Follow-Up

Our audit report contains 8 findings and 8 corresponding recommendations. The Department's corrective action plan indicates that it agrees with the recommendations and plans to implement 6 of them.

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

As disclosed in the Department's summary schedule of prior audit findings, the Department complied with 6 of the 7 prior Single Audit recommendations related to the 5 prior audit findings. One of the prior recommendations is repeated in this report.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Schedules

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? No

Reportable conditions identified that are not considered to be material weaknesses? Yes

Noncompliance material to the financial schedules? No

Federal Awards

Internal control over major programs:

Material weaknesses identified? No

Reportable conditions identified that are not considered to be material weaknesses? Yes

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, Section 510(a)? Yes

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
10.664	Cooperative Forestry Assistance
66.605	Performance Partnership Grants - Pesticide Cooperative Agreement
66.700	Consolidated Pesticide Enforcement Cooperative Agreements

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

Auditee qualified as a low-risk auditee? No

Section II: Findings Related to the Financial Schedules

FINDING (799901)

1. Personnel and Payroll Functions

The Department of Agriculture had not developed and implemented proper internal control for Personnel-Payroll Information System for Michigan* (PPRISM)/Data Collection and Distribution System* (DCDS) functions. Proper internal control is critical to help prevent and detect, on a timely basis, the processing of erroneous and unauthorized transactions.

Our review of PPRISM/DCDS functions disclosed the following internal control weaknesses:

- a. The Department had not developed procedures to ensure that payroll adjustment and personnel transactions were approved before they were processed.

* See glossary at end of report for definition.

Various Michigan Administrative Information Network* (MAIN) Human Resource Systems* (HRS) procedures state that manual transactions are to be prepared, approved, and then entered.

Our review of 17 manual transactions disclosed that none of the transactions were approved before being entered and processed. Personnel and payroll adjustment documents were prepared by the Human Resource Systems Division staff and entered into MAIN HRS for processing. The documents were later approved by the Human Resource Systems Division director or the Department's deputy director. The approvals were dated 1 to 47 days after the transactions were entered.

- b. The Department did not reconcile the PPRISM biweekly transaction reports (PE-110 reports) with source documents.

To help ensure that transactions are accurately processed, the PE-110 reports should be reconciled with source documents by a control person who does not have the capability to process PPRISM transactions.

- c. The Department did not reconcile the PPRISM/DCDS biweekly hours entered reports (PR-180 reports) to time and attendance records.

The Office of Financial Management, Department of Management and Budget (DMB), instructed all departments and agencies to ensure that the PR-180 reports were reconciled to time and attendance records by employees who are not responsible for processing PPRISM/DCDS transactions.

Our review of staff cost allocations and personnel files disclosed that two employees were paid for hours in excess of what they actually worked. One employee had been paid for an additional 80 hours and the other employee was paid for an additional 10 hours. The Department did not detect either of the overpayments. The first employee notified the Department of the overpayment and returned the money. The second employee did not notify

* See glossary at end of report for definition.

the Department and return the money. A reconciliation of the PR-180 report on a biweekly basis would have disclosed these overpayments.

RECOMMENDATION

We recommend that the Department develop and implement proper internal control for PPRISM/DCDS functions.

FINDING (799902)

2. Internal Audit Function

The Department's internal auditor was not organizationally independent.

Section 18.1486(2) of the *Michigan Compiled Laws* states that the internal auditor shall report to and be under the general supervision of the department head. In addition, *Government Auditing Standards* issued by the Comptroller General of the United States requires that the internal auditor be organizationally independent (separate from the functions audited) and maintain an appearance and attitude of being independent.

The individual assigned the internal audit responsibilities reports jointly to the Department's deputy director and the director of the Finance and Technology Division. This individual's duties in financial services during the audit period included managing the Financial Program Regulation Section and serving as the agency security administrator* of the Department. These additional responsibilities conflict with the internal auditor's role as an independent third party. The internal audit function should be independent so that its conclusions and recommendations will be impartial and third parties will view them as impartial.

In response to a similar finding in our prior audit, the Department stated that it agreed in theory with the need to have an internal audit function; however, it could not justify the use of resources to assign a position to the Executive Office exclusively for audit purposes.

* See glossary at end of report for definition.

RECOMMENDATION

WE AGAIN RECOMMEND THAT THE DEPARTMENT REASSIGN THE INTERNAL AUDIT FUNCTION TO COMPLY WITH THE REQUIREMENTS AND INTENT OF SECTION 18.1486 OF THE *MICHIGAN COMPILED LAWS*.

FINDING (799903)

3. Indirect Cost Recovery Accounting

The Department's internal control did not ensure that MAIN accurately reflected the revenue received for indirect cost recovery. The Department did not have written procedures detailing how to record revenue received from indirect cost recovery.

Section 18.1460(2) of the *Michigan Compiled Laws* requires the Department to identify and seek reimbursement for all eligible indirect costs.

Our review of 5 grants in fiscal year 1997-98 and 9 grants in fiscal year 1996-97 disclosed differences in the amount of indirect cost reported on the federal financial status reports and the amount of revenue recorded in MAIN. Two of the 5 grants in fiscal year 1997-98 had a net difference of \$94 less in revenue than the federal financial status reports and 3 of the 9 grants in fiscal year 1996-97 had a net difference of \$1,171 more in revenue than the federal financial status reports. As a result, fiscal year 1997-98 revenue was understated and fiscal year 1996-97 revenue was overstated.

RECOMMENDATION

We recommend that the Department strengthen its internal control to ensure that MAIN accurately reflects the revenue received for indirect cost recovery.

FINDING (799904)

4. Cash Management

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

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

We selected 2 of the 11 fiscal year 1997-98 drawdowns in order to assess the time elapsed between when the Department made program expenditures and when the funds were received from the federal government. We noted delays of 21 and 54 days from the date of the expenditure of these funds by the Department until the date that federal reimbursement was received. As a result, the State lost interest income of approximately \$1,400 on these two draws based on the State Treasurer's Common Cash rate of return.

RECOMMENDATION

We recommend that the Department enhance its internal control to provide for compliance with State and federal cash management standards.

FINDING (799905)

5. Procurement Card Usage

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

The Department used procurement cards to make purchases totaling approximately \$825,000 in fiscal year 1997-98 and \$442,000 in fiscal year 1996-97. Our review of 111 transactions disclosed the following instances of noncompliance with policies and procedures:

- a. One procurement card was used by someone other than the approved cardholder for 5 transactions. The State of Michigan Procurement Card

Program's Cardholder Manual and Department of Agriculture Procedure Manual procedure 1-27 require that a procurement card be used only by the approved cardholder whose name is embossed on the card. The cardholder explained that he was not familiar with the procedure during fiscal year 1996-97.

- b. Merchandise receipts were not retained for 6 transactions totaling \$2,498. As a result, we could not verify the appropriateness of the purchases. The Program's Cardholder Manual and the Department's Procedure Manual require that card users obtain and retain merchandise receipts.
- c. For 1 transaction, the purchaser split the purchase to avoid exceeding the \$1,000 individual transaction limit. The Program's Cardholder Manual prohibits splitting charges in order to avoid exceeding the \$1,000 individual transaction limit.

RECOMMENDATION

We recommend that the Department improve its internal controls to ensure that procurement card users comply with Department of Agriculture and DMB policies and procedures.

The status of the findings reported in the prior Single Audit is disclosed in the summary schedule of prior audit findings.

Section III: Findings and Questioned Costs Related to Federal Awards

FINDING (799906)

6. Federal Financial Reporting

U.S. Department of Agriculture	CFDA: 10.664 Cooperative Forestry Assistance
Award Number: NA-96-0175 NA-96-0176 NA-97-0140 NA-97-0142 NA-98-0087 NA-98-0088	Award Period: 10/1/95 - 12/31/96 1/1/96 - 12/31/96 1/1/97 - 12/31/97 10/1/96 - 9/30/97 10/1/97 - 9/30/98 1/1/98 - 12/31/98
	Questioned Costs: \$0

U.S. Environmental Protection Agency	CFDA: 66.700 Consolidated Pesticide Enforcement Cooperative Agreements
Award Number: E-005333-97	Award Period: 10/1/96 - 9/30/97
	Questioned Costs: \$0

The Department did not ensure the timely submission of required federal financial reports.

The Cooperative Forestry Assistance - Gypsy Moth Suppression Program grant agreement requires the Department to submit financial status reports (SF-269 reports) to report on the status of funds for federal grants. Semi-annual reports are due within 30 days after the end of the reporting period. Final reports are due within 90 days after the expiration or termination of grant support, unless extended.

Title 40, Part 31, Section 41(b) of the *Code of Federal Regulations (CFR)* requires the Department to submit SF-269 reports to report on the status of funds for federal grants for the Consolidated Pesticide Enforcement Cooperative Agreements programs. Final reports are due within 90 days after the expiration or termination of grant support, unless extended.

Our review of 25 interim and final SF-269 reports due during fiscal years 1997-98 and 1996-97 disclosed the following as of March 5, 1999:

- a. Nine reports had been submitted from 9 to 63 days late.
- b. Eight interim reports had not been submitted.

RECOMMENDATION

We recommend that the Department ensure the timely submission of required federal financial reports.

FINDING (799907)

7. Personnel-Payroll Cost Distributions

U.S. Environmental Protection Agency	CFDA: 66.605 Performance Partnership Grants - Pesticide Cooperative Agreement
Award Number: BG005333-98	Award Period: 10/1/97 - 9/30/98
	Questioned Costs: \$8,078

U.S. Environmental Protection Agency	CFDA: 66.700 Consolidated Pesticide Enforcement Cooperative Agreements
Award Number: E-005333-97	Award Period: 10/1/96 - 9/30/97
	Questioned Costs: \$8,021

The Department did not properly document personnel-payroll cost distributions to the Performance Partnership Grants - Pesticide Cooperative Agreement in accordance with federal requirements.

OMB Circular A-87, Attachment B, requires that salary and wage charges for each employee who is charged 100% to a single grant program or cost objective be supported by at least a semi-annual certification that the employee worked solely on that program for the period covered by the certification. OMB Circular A-87 requires that certifications be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Our review of activity reports and accounting records for 19 employees disclosed that 16 of the 19 employees were charged 100% to these programs. The Department had not prepared certifications for any of these employees. Department staff informed us that they were not aware of this federal requirement. Such noncompliance with OMB Circular A-87 requirements could result in disallowed costs.

RECOMMENDATION

We recommend that the Department properly document personnel-payroll cost distributions in accordance with federal requirements.

FINDING (799908)

8. Cooperative Forestry Assistance Grant Applications

U.S. Department of Agriculture	CFDA: 10.664 Cooperative Forestry Assistance
Award Number: NA-97-0142 NA-98-0087	Award Period: 10/1/96 - 9/30/97 10/1/97 - 9/30/98
	Questioned Costs: \$0

The Department did not ensure that subrecipient applications included certifications for debarment and suspension.

Federal regulation 7 *CFR* 3016.35 prohibits the Department from making a grant to any party that is debarred or suspended. Federal regulation 7 *CFR* 3017.510(a) requires that the Department obtain certification from each participant in the federal program on their debarment and suspension status.

Our review of 10 payments to local counties for the Cooperative Forestry Assistance - Gypsy Moth Suppression Program disclosed that none of the 10 subrecipient grant files contained written certifications for the debarment and suspension requirement. As a result, the Department could not document that payments were made only to eligible recipients.

RECOMMENDATION

We recommend that the Department ensure that subrecipient applications include certifications for debarment and suspension.

FINDING (799909)

9. Personnel and Payroll Functions

Applicable to: All federal programs

This finding is included in Section II of the schedule of findings and questioned costs (799901).

FINDING (799910)

10. Procurement Card Usage

Applicable to: All federal programs

This finding is included in Section II of the schedule of findings and questioned costs (799905).

The status of the findings reported in the prior Single Audit is disclosed in the summary schedule of prior audit findings.

Independent Auditor's Report on
the Financial Schedules

March 26, 1999

Ms. Deanna Stamp, Chairperson
Commission of Agriculture
and
Mr. Dan Wyant, Director
Department of Agriculture
Ottawa Building
Lansing, Michigan

Dear Ms. Stamp and Mr. Wyant:

We have audited the accompanying schedule of General Fund revenue and operating transfers and the schedule of sources and disposition of General Fund authorizations of the Department of Agriculture for the fiscal years ended September 30, 1998 and September 30, 1997. These financial schedules are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial schedules based on our audit. The financial transactions of the Department are accounted for principally in the General Fund of the State of Michigan.

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

As described in Note 1b, the accompanying financial schedules include only the revenue and operating transfers and the sources and disposition of authorizations for the Department of Agriculture's General Fund accounts, presented on the modified accrual basis of accounting. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either the Department or the State's General Fund in accordance with generally accepted accounting principles.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenue and operating transfers and the sources and disposition of authorizations of the Department of Agriculture for the fiscal years ended September 30, 1998 and September 30, 1997, on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 26, 1999 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 grants.

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

The year 2000 supplementary information on page 36 is not a required part of the basic financial schedules but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it.

AUDITOR GENERAL

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

March 26, 1999

Ms. Deanna Stamp, Chairperson
Commission of Agriculture
and
Mr. Dan Wyant, Director
Department of Agriculture
Ottawa Building
Lansing, Michigan

Dear Ms. Stamp and Mr. Wyant:

We have audited the General Fund financial schedules of the Department of Agriculture for the fiscal years ended September 30, 1998 and September 30, 1997 and have issued our report thereon dated March 26, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department's financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of

expressing our opinion on the financial schedules and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 1 through 5.

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

This report is intended for the information of the Department's management, the Legislature, federal awarding agencies, and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

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

March 26, 1999

Ms. Deanna Stamp, Chairperson
Commission of Agriculture
and
Mr. Dan Wyant, Director
Department of Agriculture
Ottawa Building
Lansing, Michigan

Dear Ms. Stamp and Mr. Wyant:

Compliance

We have audited the compliance of the Department of Agriculture with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each major federal program for the fiscal years ended September 30, 1998 and September 30, 1997. 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 generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of

compliance requirements referred to in the previous paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

In our opinion, the Department of Agriculture complied, in all material respects, with the requirements referred to in the second previous paragraph that are applicable to each major federal program for the fiscal years ended September 30, 1998 and September 30, 1997. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 6 through 8.

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Department's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 6 through 10.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe

that none of the reportable conditions described in the previous paragraph is a material weakness.

This report is intended for the information of the Department's management, the Legislature, federal awarding agencies, and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

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

	<u>1998</u>	<u>1997</u>
REVENUE		
Horse race wagering taxes	\$ 12,694,443	\$ 11,965,008
Federal revenue	3,380,626	2,697,341
Services	1,837,219	1,851,928
Licenses and permits	8,767,518	7,734,409
Miscellaneous revenue	<u>1,874,993</u>	<u>1,441,661</u>
 Total Revenue	 \$ 28,554,799	 \$ 25,690,347
 OPERATING TRANSFERS		
Private oil overcharges	<u>696,905</u>	<u>809,688</u>
 Total Revenue and Operating Transfers	 <u>\$ 29,251,704</u>	 <u>\$ 26,500,035</u>

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

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

	1998	1997
SOURCES OF AUTHORIZATIONS		
General purpose appropriations (Note 2a)	\$ 33,929,100	\$ 37,125,000
Budgetary transfers in (out)	1,556	57,517
Balances carried forward (Note 2b)	11,237,838	14,482,318
Restricted financing sources (Note 2c)	29,360,375	26,113,199
Less: Intrafund expenditure reimbursements	<u>(503,000)</u>	<u></u>
Total	<u>\$ 74,025,868</u>	<u>\$ 77,778,034</u>
DISPOSITION OF AUTHORIZATIONS		
Gross expenditures and operating transfers out	\$ 64,507,499	\$ 66,273,858
Less: Intrafund expenditure reimbursements	<u>(503,000)</u>	<u></u>
Net expenditures and operating transfers out	<u>\$ 64,004,499</u>	<u>\$ 66,273,858</u>
Balances carried forward:		
Multi-year projects	\$ 342,694	\$ 29,580
Encumbrances	1,246,621	1,335,519
Restricted revenue - not authorized (Note 2d)	<u>8,148,062</u>	<u>9,872,738</u>
Total balances carried forward	<u>\$ 9,737,378</u>	<u>\$ 11,237,838</u>
Balances lapsed	<u>\$ 283,992</u>	<u>\$ 266,338</u>
Total	<u>\$ 74,025,868</u>	<u>\$ 77,778,034</u>

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

Notes to the Financial Schedules

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the Department of Agriculture for the fiscal years ended September 30, 1998 and September 30, 1997. The financial transactions of the Department are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

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

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

b. Basis of Accounting and Presentation

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

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

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

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 appropriation and any supplemental appropriations that are financed by General Fund/general purpose revenue.
- b. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenue - authorized, and restricted revenue - not authorized that were not spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry-forward without additional legislative authorization, except for the restricted revenue - not authorized.
- c. Restricted financing sources: Collections of restricted revenues, restricted operating transfers, and restricted interfund expenditure reimbursements to finance department programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenue - authorized or restricted revenue - unauthorized.
- d. Restricted revenue - not authorized: Revenue that, by statute, is restricted for use to a particular department program or activity. However, the expenditure of the restricted revenue is subject to annual legislative appropriation. Examples of significant carry-forwards of this type are groundwater and freshwater protection fees, licensing and inspection fees, and equine development funds.

REQUIRED SUPPLEMENTARY INFORMATION

Year 2000 Issues

In October 1998, the Governmental Accounting Standards Board (GASB) issued Technical Bulletin 98-1, entitled *Disclosures about Year 2000 Issues*. The provisions of the GASB Technical Bulletin, effective for financial schedules on which the auditor's report is dated after October 31, 1998, require the Department of Agriculture to make disclosures in the notes to the financial schedules about its readiness in addressing year 2000 issues for its computer systems and other electronic equipment. In March 1999, GASB issued an amended Technical Bulletin, 99-1, allowing disclosure of year 2000 issues in required supplementary information or in the notes to the financial schedules. Retroactive application was allowed.

The year 2000 issue is the result of shortcomings in electronic data-processing systems and other electronic equipment that may adversely affect operations in the year 1999 and beyond. To address the year 2000 issues, the State established the Year 2000 Project Office within the Department of Management and Budget. The Year 2000 Project Office's mission is to lead, support, and facilitate achievement of year 2000 compliance throughout the State's executive branch to ensure uninterrupted service to Michigan's citizens. The Year 2000 Project Office is monitoring year 2000 compliance efforts at the various agencies and is providing assistance and assigning resources to accelerate compliance for all mission critical systems and equipment.

Disclosures regarding the Statewide year 2000 remediation efforts are available in the *State of Michigan Comprehensive Annual Financial Report* for the fiscal year ended September 30, 1998.

An executive directive, issued in February 1998, directed all executive branch agencies to make the year 2000 issue the number one priority. As a result, the State developed a comprehensive risk management program that identified risks faced by the State concerning year 2000 operability.

The Department of Agriculture has established a Year 2000 Project Team within the Bureau of Finance and Technology. The Project Team has overall responsibility for the implementation of year 2000 systems at the Department.

The following stages have been identified as necessary to implement a year 2000 compliant system:

- (1) Awareness stage - encompasses establishing a budget and project plan for dealing with the year 2000 issue.
- (2) Assessment stage - when the organization begins the actual process of identifying all of its systems and individual components of the systems. An organization may decide to review all system components for year 2000 compliance or, through a risk analysis, identify only mission critical systems and equipment to check for compliance.
- (3) Remediation stage - when the organization actually makes changes to systems and equipment. This stage deals primarily with the technical issues of converting existing systems or switching to compliant systems. During this stage, decisions are made on how to make the systems or processes year 2000 compliant, and the required system changes are made.
- (4) Validation/Testing stage - when the organization validates and tests the changes made during the conversion process. The development of test data and test scripts, the running of test scripts, and the review of test results are crucial for this stage of the conversion process to be successful. If the testing results show anomalies, the tested area needs to be corrected and retested.

The Department identified 54 computer applications that are critical to conducting its operations and that need to be year 2000 compliant. The Department has also received written assurance for those critical applications being evaluated by outside vendors. The Department is also responsible for assessing the status of computer equipment and replacing or upgrading the equipment as needed. The Department expects to complete this assessment on or before October 1, 1999.

The Department's year 2000 remediation efforts have been aimed primarily at ensuring unimpeded and uninterrupted operation of programs that support the Department's mission and goals. These programs include activities such as quality assurance for food, dairy, plant, pesticide, and motor fuel products; monitoring of products utilized by the agricultural industry; protection of soil and groundwater resources; protection of

consumers from undesirable or fraudulent practices; and marketing of Michigan agriculture locally, nationally, and internationally. As of September 30, 1998, the Department had validated and tested 35% of the 54 mission critical computer applications identified at that time. The remaining 65% of the critical systems were in other stages of completion.

The Legislature appropriated \$55.6 million to the State Project Office to provide assistance to agencies in obtaining external resources to address year 2000 issues. As of September 30, 1998, the Department had expended \$170,000 of the Statewide appropriation. In addition, the Department has expended \$50,000 of its own appropriation toward the year 2000 remediation efforts. The Department had \$180,000 in contracts outstanding with vendors on September 30, 1998.

Management believes that the Department has the correct plan in place and that the Department will be able to process date and/or date-related information correctly prior to, during, and after January 1, 2000. However, because of the unprecedented nature of the year 2000 issue, its effect and the success of the related remediation efforts cannot be fully determinable until the year 2000 and thereafter. Consequently, management cannot guarantee that the Department is or will be year 2000 ready, that the Department's remediation efforts will be successful in whole or in part, or that parties with whom the Department does business will be year 2000 ready.

As of December 31, 1998, all 54 of the Department's mission critical applications had been remediated, tested, verified, and placed back into production. The Department continues to work on awareness and education of its stakeholders.

SUPPLEMENTAL
FINANCIAL SCHEDULE

DEPARTMENT OF AGRICULTURE
 Schedule of Expenditures of Federal Awards *
 For the Period October 1, 1996 through September 30, 1998

For the Fiscal Year Ended September 30, 1997					
Federal Agency/Program	CFDA ** Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
U.S. Department of Agriculture					
Direct Programs					
Plant and Animal Disease, Pest Control, and Animal Care	10.025		\$ 30,427	\$	\$ 30,427
Federal-State Marketing Improvement Program	10.156		59,744		59,744
Market Protection and Promotion	10.163		36,132		36,132
Cooperative Forestry Assistance	10.664		356,401	311,182	667,583
Federal-State Inspection and Grading Service for Dairy Products	N/A		13,891		13,891
Rural Development Council of Michigan	N/A		<u>108,836</u>		<u>108,836</u>
Total Direct Programs			<u>\$ 605,432</u>	<u>\$ 311,182</u>	<u>\$ 916,613</u>
Pass-Through Programs					
Michigan Department of Natural Resources Conservation Reserve Program	10.069	FSP96-2	\$	\$ 6,390	\$ 6,390
Cooperative Forestry Assistance - Forest Stewardship	10.664	SP96-22		<u>45,000</u>	<u>45,000</u>
Total Pass-Through Programs			<u>\$ 0</u>	<u>\$ 51,390</u>	<u>\$ 51,390</u>
Total U.S. Department of Agriculture			<u>\$ 605,432</u>	<u>\$ 362,572</u>	<u>\$ 968,003</u>
U.S. Department of Health and Human Services					
Food Sanitation Inspections	N/A		\$ 92,995	\$	\$ 92,995
Medicated Feed Inspections	N/A		8,069		8,069
Tissue Residue Inspections	N/A		<u>5,320</u>		<u>5,320</u>
Total U.S. Department of Health and Human Services			<u>\$ 106,384</u>	<u>\$ 0</u>	<u>\$ 106,384</u>
U.S. Environmental Protection Agency					
Direct Programs					
Great Lakes Program	66.469		\$	\$	\$ 0
Performance Partnership Grants - Pesticide Cooperative Agreement	66.605				0
Consolidated Pesticide Enforcement Cooperative Agreements	66.700		587,400	64,800	652,200
Pesticide Data Program	N/A		<u>865,132</u>		<u>865,132</u>
Total Direct Programs			<u>\$ 1,452,532</u>	<u>\$ 64,800</u>	<u>\$ 1,517,332</u>
Pass-Through Program					
Michigan Department of Environmental Quality Nonpoint Source Implementation Grants	66.460	480295	<u>\$ 75,000</u>	<u>\$</u>	<u>\$ 75,000</u>
Total U.S. Environmental Protection Agency			<u>\$ 1,527,532</u>	<u>\$ 64,800</u>	<u>\$ 1,592,332</u>
Federal Emergency Management Agency					
Pass-Through Program					
Michigan Department of State Police Hazard Mitigation Grant Program	83.548		<u>\$</u>	<u>\$</u>	<u>\$ 0</u>
Total Federal Emergency Management Agency			<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

This schedule continued on next page.

For the Fiscal Year Ended September 30, 1998

<u>Pass-Through Identification Number</u>	<u>Directly Expended</u>	<u>Distributed to Subrecipients</u>	<u>Total Expended and Distributed</u>	<u>Total Expended and Distributed for the Two-Year Period</u>
	\$ 22,509	\$	\$ 22,509	\$ 52,936
		21,594	21,594	81,338
	775,458		775,458	811,590
	322,538	701,937	1,024,475	1,692,058
	16,355		16,355	30,246
	<u>99,727</u>		<u>99,727</u>	<u>208,563</u>
	<u>\$ 1,236,587</u>	<u>\$ 723,531</u>	<u>\$ 1,960,118</u>	<u>\$ 2,876,731</u>
CRP98-01	\$	\$ 4,165	\$ 4,165	\$ 10,555
FSP98-00		<u>85,226</u>	<u>85,226</u>	<u>130,226</u>
	<u>\$ 0</u>	<u>\$ 89,391</u>	<u>\$ 89,391</u>	<u>\$ 140,781</u>
	<u>\$ 1,236,587</u>	<u>\$ 812,922</u>	<u>\$ 2,049,510</u>	<u>\$ 3,017,513</u>
	\$ 92,936	\$	\$ 92,936	\$ 185,931
	8,069		8,069	16,138
	<u>4,107</u>		<u>4,107</u>	<u>9,427</u>
	<u>\$ 105,112</u>	<u>\$ 0</u>	<u>\$ 105,112</u>	<u>\$ 211,496</u>
	\$	\$ 60,000	\$ 60,000	\$ 60,000
	649,530		649,530	649,530
		193,710	193,710	845,910
	<u>224,867</u>		<u>224,867</u>	<u>1,089,999</u>
	<u>\$ 874,397</u>	<u>\$ 253,710</u>	<u>\$ 1,128,107</u>	<u>\$ 2,645,439</u>
480297-98	<u>\$ 75,000</u>	<u>\$</u>	<u>\$ 75,000</u>	<u>\$ 150,000</u>
	<u>\$ 949,397</u>	<u>\$ 253,710</u>	<u>\$ 1,203,107</u>	<u>\$ 2,795,439</u>
FEMA-1128-DR	<u>\$ 24,749</u>	<u>\$</u>	<u>\$ 24,749</u>	<u>\$ 24,749</u>
	<u>\$ 24,749</u>	<u>\$ 0</u>	<u>\$ 24,749</u>	<u>\$ 24,749</u>

DEPARTMENT OF AGRICULTURE
 Schedule of Expenditures of Federal Awards*
 For the Period October 1, 1996 through September 30, 1998
 Continued

For the Fiscal Year Ended September 30, 1997

<u>Federal Agency/Program</u>	<u>CFDA ** Number</u>	<u>Pass-Through Identification Number</u>	<u>Directly Expended</u>	<u>Distributed to Subrecipients</u>	<u>Total Expended and Distributed</u>
Corporation for National and Community Service					
Pass-Through Program					
Michigan Jobs Commission					
AmeriCorps - Groundwater Stewardship	94.006		\$	\$	\$ 0
AmeriCorps - Groundwater Stewardship	94.006				<u>0</u>
Total Corporation for National and Community Service			<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Expenditures of Federal Awards			<u>\$ 2,239,349</u>	<u>\$ 427,372</u>	<u>\$ 2,666,719</u>

* Basis of Presentation: This schedule includes the federal grant activity of the Department of Agriculture and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial schedules.

** CFDA is defined as *Catalog of Federal Domestic Assistance*.

N/A = Not applicable.

For the Fiscal Year Ended September 30, 1998

<u>Pass-Through Identification Number</u>	<u>Directly Expended</u>	<u>Distributed to Subrecipients</u>	<u>Total Expended and Distributed</u>	<u>Total Expended and Distributed for the Two-Year Period</u>
98-IA-005	\$	\$ 12,800	\$ 12,800	\$ 12,800
98-IA-006	<u>153,447</u>		<u>153,447</u>	<u>153,447</u>
	<u>\$ 153,447</u>	<u>\$ 12,800</u>	<u>\$ 166,247</u>	<u>\$ 166,247</u>
	<u>\$ 2,469,292</u>	<u>\$ 1,079,432</u>	<u>\$ 3,548,725</u>	<u>\$ 6,215,444</u>

OTHER REQUIRED SCHEDULES

DEPARTMENT OF AGRICULTURE
Summary Schedule of Prior Audit Findings
As of March 26, 1999

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 1994 through September 30, 1996

Finding Number: 1

Finding: The Department did not have effective controls in place to help ensure that operating transfers were correctly processed.

Comments: The Department modified its process to ensure that operating transfers were correctly processed.

Audit Period: October 1, 1994 through September 30, 1996

Finding Number: 2

Finding: The Department did not have procedures to effectively convert State accounting information for use in the financial schedules.

Comments: The Department implemented procedures to clearly identify expenditures for inclusion in the financial schedules.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 1994 through September 30, 1996

Finding Number: 3

Finding: The Department's internal auditor was not organizationally independent. Also, the internal auditor did not conduct periodic audits of the Department's financial services activities.

Comments: The Department agrees in theory with the need to have an internal audit function. However, the Department disagrees philosophically with the appointment of an internal auditor to exclusively perform audits of financial services activities. The Department conducted financial related audits during the fiscal years ended September 30, 1998 and September 30, 1997.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 1994 through September 30, 1996

Finding Number: 4

Finding: The Department did not ensure that subrecipients complied with the Single Audit Act of 1984. Also, the Department did not perform desk reviews of subrecipient audit reports.

Comments: The Department has taken steps to comply with these recommendations; however, the new requirements in OMB Circular A-133 make this recommendation no longer applicable.

Audit Period: October 1, 1994 through September 30, 1996

Finding Number: 5

Finding: The Department did not have controls in place to help ensure that it submitted required performance reports for federal programs.

Comments: The Department has implemented controls and has submitted required performance reports.

DEPARTMENT OF AGRICULTURE

Corrective Action Plan

As of October 7, 1999

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Finding Number: 799901
Finding Title: Personnel and Payroll Functions
Management Views: We agree with the recommendation but are doubtful as to timely corrective action. Our resources have been severely limited, and with this limitation, implementation of internal controls is difficult at best.
Corrective Action: None
Anticipated Completion Date: None
Responsible Individual: Robert Kaczorowski, Director, Human Resources Division

Finding Number: 799902
Finding Title: Internal Audit Function
Management Views: While we agree that there may be a perception of not being organizationally independent, in fact the internal auditor does report to the Department deputy director on all internal audit matters. The chief financial officer for the Department has no role in the audit plan development, its implementation, or resulting reports. The perceived conflict may arise because the internal auditor also has responsibility for mission work of the Department. The internal auditor performs regulatory responsibilities and provides additional program oversight in assigned areas. As such, the internal auditor reports to the chief financial officer on these programs and their operation. We had previously recognized that the security administration responsibilities assigned to the internal auditor were a

direct conflict, but implementation of corrective action was limited by resource constraints.

Corrective Action:

During December 1998, we reassigned the security administrator responsibilities to another employee in the Finance and Technology Division. We believe that the organizational placement of the internal auditor is appropriate for the circumstance and do not intend to change the organizational placement at this time.

Anticipated Completion Date: None

Responsible Individual: Keith Creagh, Deputy Director

Finding Number: 799903

Finding Title: Indirect Cost Recovery Accounting

Management Views: We agree and will comply.

Corrective Action: We will standardize procedures to handle indirect revenue. Our procedures will include a review of indirect revenue per the Michigan Administrative Information Network and per financial status reports during the year-end closing process for grants.

Anticipated Completion Date: October 1, 1999

Responsible Individual: Rick Harper, Chief Accountant

Finding Number: 799904

Finding Title: Cash Management

Management Views: We agree and will comply.

Corrective Action: The Department has implemented procedures to review grant related spending levels weekly to assess opportunities to minimize elapsed time between spending and federal draws. Furthermore, when grant agreements specify the required billing intervals, we adhere to them.

Anticipated Completion Date: Completed September 1, 1999

Responsible Individual: Rick Harper, Chief Accountant

Finding Number: 799905
Finding Title: Procurement Card Usage
Management Views: We agree and will comply.
Corrective Action: The Department has taken steps to redesign its procurement card program. New procedures are being written, a training program for cardholders is being developed, and active monitoring of reports is now being done.
Anticipated Completion Date: March 1, 2000
Responsible Individual: Marcia Maxwell, Procurement Officer

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 799906
Finding Title: Federal Financial Reporting
Management Views: We agree and will comply.
Corrective Action: We have implemented procedures to ensure the timely submission of federal financial reports.
Anticipated Completion Date: October 1, 1999
Responsible Individual: Rick Harper, Chief Accountant

Finding Number: 799907
Finding Title: Personnel-Payroll Cost Distributions
Management Views: We agree and will comply.
Corrective Action: We are now documenting or certifying employee time spent on grant programs.
Anticipated Completion Date: October 1, 1999
Responsible Individual: Ken Rauscher, Director, Pesticide and Plant Pest Management Division

Finding Number: 799908
Finding Title: Cooperative Forestry Assistance Grant Applications
Management Views: We agree and will comply. The program area was unaware of this form requirement.

Corrective Action: The program staff will ensure that subrecipient applications include certifications for debarment and suspension.

Anticipated Completion Date: October 1, 1999

Responsible Individual: Ken Rauscher, Director, Pesticide and Plant Pest Management Division

Finding Number: 799909

Finding Title: Personnel and Payroll Functions

See Finding 799901 with the findings related to the financial schedules

Finding Number: 799910

Finding Title: Procurement Card Usage

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

Glossary of Acronyms and Terms

agency security administrator	An agency employee designated by the agency to manage all security matters in relation to MAIN's Financial Administration and Control System security.
<i>CFDA</i>	<i>Catalog of Federal Domestic Assistance.</i>
<i>CFR</i>	<i>Code of Federal Regulations.</i>
Data Collection and Distribution System (DCDS)	A client/server system with the primary purposes of supporting the capture of time, attendance, and labor distribution data and providing extended labor distribution functionality.
DMB	Department of Management and Budget.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules of an audited entity are fairly presented in conformity with generally accepted accounting principles.
GASB	Governmental Accounting Standards Board.
Human Resource System (HRS)	The personnel and payroll component of MAIN.
indirect costs	Those costs that are incurred for a common or joint purpose that benefit more than one cost objective and are not readily assignable to the cost objectives specifically benefited.
internal control	A process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness

and efficiency of operations, and (c) compliance with applicable laws and regulations.

material weakness

A condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that either misstatements in amounts that would be material in relation to the financial schedules being audited or noncompliance with applicable requirement of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Michigan
Administrative
Information Network
(MAIN)

A fully integrated automated financial management system for the State of Michigan.

mission

The agency's main purpose or the reason the agency was established.

OMB

U.S. Office of Management and Budget.

Personnel-Payroll
Information System
for Michigan (PPRISM)

An online database system used for updating and inquiry of personnel and payroll records.

procurement card

A credit card issued to State employees for purchasing commodities and services in accordance with the State purchasing policy. At the time of our audit, this was a MasterCard Purchasing Card product.

questioned costs

Costs tentatively identified as unallowable, undocumented, unapproved, or unreasonable. These costs are subject to disallowance by the federal government.

reportable condition

Matters coming to the auditor's attention relating to significant deficiencies in the design or operation of internal control that, in the auditor's judgment, could adversely affect the Department's ability to (1) record, process, summarize, and report financial data consistent with the assertions of management in the financial statements/schedules or (2) administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants.

Single Audit

A financial audit performed in accordance with the Single Audit Act Amendments of 1996 that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.

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