

EXECUTIVE DIGEST

DEPARTMENT OF ENVIRONMENTAL QUALITY

INTRODUCTION This report contains the results of our financial audit*, including the provisions of the Single Audit Act, of the Department of Environmental Quality (DEQ) for the period October 1, 1997 through September 30, 1999.

AUDIT PURPOSE This financial audit of DEQ 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 DEQ's mission* is to drive improvements in environmental quality for the protection of public health and natural resources to benefit current and future generations. This will be accomplished through effective administration of agency programs, providing for the use of innovative strategies, while helping to foster a strong and sustainable economy.

DEQ was created on August 1, 1995 by Executive Order 1995-18, which transferred environmental regulatory

programs from the Department of Natural Resources to the newly created DEQ. Subsequent executive orders impacting DEQ during our audit period included:

1. Executive Order 1998-2 transferred the remaining functions and responsibilities of the Above Ground Storage Tank Division from the Michigan Department of State Police to DEQ and created the Storage Tank Division.
2. Executive Order 1999-10 created the Water Quality Advisory Board, which was charged with advising DEQ regarding implementation of a comprehensive, long-term water quality monitoring program designed to measure the quality of Michigan's streams, rivers, and lakes and to detect areas of the State that need additional water quality control efforts.

DEQ's environmental program areas participate in managing federal grants. DEQ's financial and administrative functions are concentrated under the operations area.

DEQ's general operations are accounted for in the State's General Fund. DEQ administers environment related special revenue funds and an agency fund. As of September 30, 1999, DEQ had 1,577 employees and its General Fund expenditures and operating transfers out and special revenue fund expenditures were approximately \$201.2 million for fiscal year 1998-99.

**AUDIT OBJECTIVES
AND CONCLUSIONS**

Audit Objective: To audit DEQ's financial statements and schedules, including the schedule of expenditures of federal awards, as of and for the fiscal years ended September 30, 1999 and September 30, 1998.

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

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

Conclusion: Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial statements and schedules. 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 and accounts payable estimation (Findings 1 and 2).

In addition, our assessment indicated that DEQ was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.

Audit Objective: To assess and report on DEQ'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 an instance of material noncompliance* related to State Revolving Fund* (SRF) Program* subrecipient designation (Finding 3) that is required to be reported under OMB Circular A-133:

- SRF Program subrecipient municipalities either did not submit Single Audit* reports or submitted reports that did not identify disbursements received from SRF as federal financial assistance on their schedules of expenditures of federal awards.

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 grant payroll cost allocation and personnel and payroll functions (Findings 4 and 5).

**AUDIT SCOPE AND
METHODOLOGY**

Our audit scope was to examine the financial and other records of the Department of Environmental Quality for the period October 1, 1997 through September 30, 1999. 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 4 findings and 8 corresponding recommendations. DEQ's corrective action plan indicates that it agrees with 3 recommendations, agrees in part with 2 recommendations, and disagrees with 3 recommendations.

As disclosed in DEQ's summary schedule of prior audit findings, DEQ indicated that it fully corrected 10 of the 11 prior Single Audit findings and did not correct the remaining finding. However, 4 prior audit recommendations are repeated in this report (see Findings 1, 3, and 4).