



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF ENVIRONMENTAL QUALITY
LANSING



STEVEN E. CHESTER
DIRECTOR

August 17, 2007

Mr. Bob Emerson, Director
Office of the State Budget
Department of Management and Budget
P.O. Box 30026
Lansing, Michigan 48909

Dear Mr. Emerson:

Attached is a copy of our final plan for compliance with the recommendations in the Auditor General's Performance Audit of the Department of Environmental Quality (DEQ), Land and Water Management Division (761-0153-06). The audit period covered by this audit is October 1, 2003 through September 30, 2006.

The Office of Financial Management granted permission to distribute the plan per Section 1280.02 of the Administrative Guide to State Government.

The following is the audit response summary to the recommendations:

1. Citations complied with: n/a
2. Citations which DEQ agrees with and will comply:
 - a. Will comply with: 2, 6
 - b. Budget considerations: 1, 3, 4, 5
3. Citations DEQ disagrees with: n/a

Sincerely,

Signature Redacted

Steven E. Chester
Director
517-373-7917

Attachment

cc/att: Senator Jon Jelinek, Chair, Senate Appropriations Committee
Senator Patricia L. Birkholz, Chair, Senate Natural Resources and
Environmental Affairs Committee
Senator Valde Garcia, Chair, Senate Appropriations Subcommittee on
Environmental Quality
Representative George Cushingberry, Jr., Chair, House Appropriations
Committee
Representative Rebekah Warren, Chair, House Great Lakes and Environment
Committee
Representative Doug Bennett, Chair, House Appropriations Subcommittee
on Environmental Quality
Mr. Gary S. Olson, Senate Fiscal Agency
Mr. Mitchell E. Bean, House Fiscal Agency
Mr. Thomas H. McTavish, Auditor General
Ms. Teresa A. Bingman, Governor's Office
Mr. Steven Baker, Office of the Auditor General
Mr. Jim Sygo, Deputy Director, DEQ
Ms. JoAnn Merrick, Senior Executive Assistant to the Director, DEQ
Ms. Carol Linteau, Legislative Liaison, DEQ
Mr. James Kasprzak, DEQ
Mr. Rick Lowe, Department of Management and Budget

**Department of Environmental Quality
Final Corrective Action Plan**

Performance Audit (761-0153-06) of the

LAND AND WATER MANAGEMENT DIVISION

October 1, 2003 through September 30, 2006

Finding Number 1: CIWPIS Database Security Controls

Recommendation:

We recommend Land and Water Management Division (LWMD) improve its Coastal and Inland Waters Permit Information System (CIWPIS) database security controls to help ensure the integrity and validity of permit data.

DEQ Final Response:

LWMD agrees and informed us it is requesting the necessary funds to replace the database application. The Department of Information Technology has indicated to LWMD that the current database can no longer be upgraded because of its age and the antiquated platform upon which it was developed. Previous requests to obtain necessary funding to replace CIWPIS have been unsuccessful, but LWMD is currently requesting the necessary funds to replace the database application.

LWMD informed us only staff in the Permit Consolidation Unit have the ability to delete records in CIWPIS, allowing select staff to eliminate duplicate entries sometimes occur so that the database does not double count projects. LWMD also informed us DEQ has recently made changes to the process for managing CIWPIS user access by designating a single employee to authorize all changes and by establishing a procedure whereby user access privileges are revoked concurrent with employee departures from LWMD. In addition, LWMD informed us it has already revoked all user access privileges for those departed employees identified in the audit finding.

60 Day Update – LWMD has taken the steps available, as noted above, to begin the process of CIWPIS data security upgrades. Until an updated computer database is created further upgrades are not possible. The LWMD has requested increased fees through the legislative budget process, in part to allow this database upgrade. If funding is provided, it is still expected it will take two years or more, working with the Department of Information Technology and outside consultants, until an upgraded system is available.

Finding Number 2: Complete and Accurate CIWPIS Data

Recommendation:

We recommend LWMD ensure staff enter complete and accurate data into CIWPIS.

DEQ Final Response:

LWMD partially agrees and informed us that a concentrated training session was developed and provided to the LWMD central and district office employees in winter 2006. LWMD informed us that a large part of this training focused on necessary procedures to ensure CIWPIS data completeness and accuracy. LWMD expects this training effort will help to further improve data accuracy. However, while LWMD agrees complete and accurate records are necessary, most of the concerns raised relative to this recommendation show a 97 percent to 98 percent success rate for data completeness.

In regard to item g. of this finding, LWMD believes one of the contributing causes was staff using the wrong date in CIWPIS. This relates to permits requiring a countersignature by the applicant. LWMD informed us it has provided staff with guidance to address this finding.

60 Day Update – While the training has been completed, any further improvements to database management will be tied to the upgrades as mentioned in Finding Number 1.

Finding Number 3: Complaint Follow-Up

Recommendation:

We recommend LWMD follow-up complaints regarding the use of land and water resources in accordance with priorities established in LWMD procedures.

DEQ Final Response:

LWMD agrees and informed us that complaint follow up needs to be more in line with the priorities established in procedures. LWMD also informed us compliance and enforcement actions need to be undertaken at a level that will deter violations and assure those who are compliant that there is a "level playing field" relative to LWMD program implementation.

In regard to item a. of this finding, LWMD informed us files could not be located because of staff shortages in LWMD and higher-than-average employee turnover rates in the district offices. LWMD also informed us that because of the significant emphasis on permit processing both to avoid Part 13 mandated refunds and to allow development to support the economy, compliance and enforcement efforts have suffered.

Additionally, LWMD informed us it has requested increases to the fees charged in most of its programs. LWMD also informed us a portion of the additional revenue will help to restore staff levels to better manage LWMD work load. For example, LWMD work load evaluation indicates current staff levels of district permit staff, on average, allow LWMD to manage approximately 160 files per employee. Comparatively, in 2006, the work load levels in the district offices ranged from 176 to 263 files per employee. LWMD informed us achieving a more balanced work load would allow LWMD to manage all aspects of permit, compliance, and enforcement activities.

60 Day Update – The requested fee increases, mentioned in Finding Number 1, are also designed to allow LWMD to hire sufficient staff to appropriately manage all phases of the programs. If sufficient revenue is not forthcoming, the LWMD has indicated the wetland program should be returned to the United States Environmental Protection Agency/Corps of Engineers to operate. In this way, revenue, workload and staff numbers would be more in balance and allow compliance and enforcement efforts to be more in line with procedures. As the fees increase, if approved, would not take effect until fiscal year (FY) 2008, and staff would need to be hired and trained, significant improvement would not be expected until FY 2009.

Finding Number 4: Utilization of the Compliance Tracking Database

Recommendations:

We recommend LWMD ensure district staff enter complete and accurate performance data into the Compliance Tracking Database.

We also recommend LWMD ensure district staff maintain detailed supporting records for data recorded in the Compliance Tracking Database.

DEQ Final Response:

LWMD agrees and informed us, as with staffing shortages and computer upgrades, training has also been severely limited because of budget constraints in recent years. A division-wide targeted training planned for March 2007 was canceled because of lack of funding. LWMD informed us that requests for additional funding will allow for ongoing staff training. This will help LWMD to ensure complete, accurate, and timely data in the Compliance Tracking Database. LWMD also informed us, despite the staffing and funding shortages, it was able to provide staff a training session during winter 2006 to address many of the permit review and data tracking issues identified in the audit report.

60 Day Update – Staff in the Compliance and Enforcement Unit have developed a training session to provide to all district staff. Part of this training addresses record keeping and the need for accurate data management. The Executive Directive relative to travel reductions has limited the ability to implement the

training in all districts. To date, three of the eight district offices have been visited. The remaining offices are slated to be completed by the end of December 2007. The database upgrades already discussed will also improve data management as the various division databases will be more consolidated and integrated.

Finding Number 5: Wetland Mitigation

Recommendation:

We recommend LWMD ensure compliance with regulations regarding wetland mitigation and protection of Michigan wetlands.

DEQ Final Response:

LWMD agrees and informed us it has created a link to the mitigation database through the CIWPIS database. LWMD informed us, once a permit is issued with a "conservation easement required" category; the easement database is populated with a new entry for the permitted site. LWMD also informed us that a further control on this system is the need for financial assurance for most mitigation sites.

LWMD agrees staff do not have the capability to adequately monitor the implementation of wetland mitigation construction. LWMD informed us it is seeking fee increases to allow LWMD to restore appropriate resource levels in the district offices for the compliance efforts needed in this area. However, LWMD also informed us, because of the need for financial assurance for these projects, district staff monitor the sites before any of the money is returned to the applicant. Half of the financial assurance money is returned when the project is constructed and the other half is returned when the site has met the performance criteria. In addition, LWMD informed us it has updated the permit standard paragraphs to require submittal of conservation easements within a specified time following issuance of the permit to make compliance with this requirement easier to track.

60 Day Update – Until additional staff can be hired and trained, any additional effort in monitoring mitigation sites is not possible at this time. Should sufficient funding be provided, staff should be hired and trained to conduct this work by the end of FY 2008.

Finding Number 6: Cash Receipting Process for Permit Application Fees

Recommendation:

We recommend LWMD establish internal control over the cash receipting process for permit application fees.

DEQ Final Response:

LWMD agrees and acknowledged that at the time of the audit internal control over the cash receipting process for permit application fees was lacking. This issue had been identified by LWMD administration staff. LWMD informed us separation of duties between functions has been implemented for the central office. LWMD also informed us that two employees are consistently involved in the mail opening process, where a log of checks received is maintained and appropriately signed. In addition, LWMD informed us checks are deposited in a timely manner.

Addressing issues with cash handling in the district offices has been identified as a DEQ priority as it affects multiple programs. LWMD informed us it is actively involved in an ongoing department-wide process to address these district issues. This includes improving the separation of duties, providing adequate oversight and timely handling of all checks, and securing receipts when necessary. LWMD also informed us it encourages applicants to pay by credit card or electronic check to limit the concern with cash handling.

Further, DEQ informed us it recognizes the importance of revenue reconciliations and has identified development of these processes as a department-wide priority by including it as a distinct component of the DEQ Revenue Internal Control Improvement Plan. LWMD informed us it will work with staff in the DEQ Financial and Business Services Division to develop a reconciliation plan.

60 Day Update – LWMD has instituted appropriate cash handling mechanisms in the Lansing office, which also addresses the Lansing District. In addition, the DEQ formed a department-wide workgroup charged with evaluating current field office mail handling processes and recommending improved procedures. The group recently completed its preliminary evaluation and presented the results to department leadership. As a result of the analysis completed by the workgroup, the DEQ will develop processes that direct the department cash receipts to Lansing rather than the districts. LWMD is currently evaluating the changes needed to redirect the cash receipts related to the permit fees to Lansing and the timeframe for completion.