



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF ENVIRONMENTAL QUALITY
LANSING



STEVEN E. CHESTER
DIRECTOR

October 8, 2008

Mr. Douglas Ringler, Director
Office of Internal Audit Services
Office of the State Budget
George W. Romney Building
111 South Capitol, 6th Floor
Lansing, Michigan 48913

Dear Director Ringler:

In accordance with the State of Michigan, Financial Management Guide, Part VII, attached is a summary table identifying our responses and corrective action plans to address recommendations contained within the Office of the Auditor General's (OAG) audit report of the Department of Environmental Quality (DEQ). The period for this audit is October 1, 2005 through September 30, 2007.

Questions regarding the summary table or corrective action plans should be directed to Ms. Karen Jurgensen, Federal Aid Coordinator, Financial and Business Services Division, at jurgensenk@michigan.gov or at 517-241-7991.

Sincerely,

Signature Redacted

Steven E. Chester
Director
517-373-7917

Enclosure

cc/enc: ✓ Mr. Thomas McTavish, OAG
Mr. Tommy Benson, State Budget Office
Mr. Joshua Larsen, State Budget Office
Mr. Jim Sygo, Deputy Director, DEQ
Ms. JoAnn Merrick, Chief of Staff, DEQ
Mr. Jim Kasprzak, DEQ
Ms. Kimberly Stephen, DEQ
Ms. Karen Jurgensen, DEQ

DEPARTMENT OF ENVIRONMENTAL QUALITY
Summary of Findings and Corrective Action Status - FY06 and FY07 Single Audit

FINDING	PROGRAM(S)	QUESTIONED COSTS	CORRECTIVE ACTION	CORRECTIVE ACTION STATUS
Recommendations DEQ agrees with and will comply:				
Subrecipient monitoring	CZM 7610801		Date-stamp audits. Issue management decisions on timely basis. Obtain 100% of required audits.	FY06 audit for City of Detroit has not been obtained. For FY07 grants, all but 7 required audits have been obtained. Audits printed from internet have been date-stamped. Management decisions issued earlier have been reaffirmed.
	SRF 7610802			
	NPS 7610803			
	DWRF 7610804	\$0.00		
Ineligible activities charged to grant	CZM 7610801		Remove grant coding from DCDS default for any employees who may work on other projects. Employees cost-account their hours.	This has been done in the Coastal Zone Management (CZM) program beginning with 3rd quarter FY08, and will be done on a department-wide basis in FY09.
	DWRF 7610804	\$0.00		
Overcharged administrative costs	CZM 7610801		Minimize amount of administrative time charged to grants. Adopt a department policy to clarify rule of bringing budget to actual at year-end.	Administrative costs will continue to be charged to CZM. Budget will be brought to actual during year-end closing. Practice of allocating Water Bureau administrative costs to Nonpoint Source (NPS), Drinking Water Revolving Fund (DWRF) and Performance Partnership Grant (PPG) has been discontinued. Only administrative costs that can be direct-charged will be recorded on Environmental Protection Agency (EPA) grants by Water Bureau. Preliminary discussions have been held with EPA regarding questioned costs. The project manager at the Dept of Commerce - National Oceanic Atmospheric Administration (DOC-NOAA) has been contacted to begin negotiation of these costs.
	NPS 7610803			
	DWRF 7610804			
	PPG 7610805	see below		
Certifications of payroll incomplete	CZM 7610801	\$3,509.00	Obtain clarification and forgiveness of questioned costs and on interpretation of documents other than certification. Seek clarification regarding grants as a total program. Develop centralized approach to obtaining data, distribute to supervisors.	Management of this process has been centralized to ensure complete coverage. Query developed to standardize information. In preliminary discussions EPA Water Division Deputy Director indicated that documentation other than certification would be acceptable.
	DWRF 7610804	\$2,580.00		
	PPG 7610805	\$286.00		

DEPARTMENT OF ENVIRONMENTAL QUALITY
Summary of Findings and Corrective Action Status - FY06 and FY07 Single Audit

FINDING	PROGRAM(S)	QUESTIONED COSTS	CORRECTIVE ACTION	CORRECTIVE ACTION STATUS
CFDA/federal award information not provided to subrecipients	SRF 7610802 DWRf 7610804	\$0.00	Complete implementation of boilerplate language in all programs. Revise SRF/DWRf supplemental boilerplate.	Necessary boilerplate changes, along with a request to include them in all Supplemental agreements beginning in FY09, have been sent to the Michigan Municipal Bond Authority and the Attorney General for review.
Debarment and suspension	CZM 7610801	\$0.00	Adopt a department policy regarding debarment and suspension documentation. Program staff print grantee status on EPLS website for file.	Coastal Zone Management Program is implementing procedure to print grantee status from Excluded Parties List System website and place in project file.
10% earmarking not verified at Year-end	NPS 7610803	\$45,015.00	Seek clarification from EPA on acceptability of regarding these grants as a total program. Minimize amount of admin time charged to grants. Post procedure for allocation on intranet.	Procedure will be followed during FY08 year-end closing. Practice of allocating administrative costs to NPS by Water Bureau has been discontinued. Only administrative costs that can be direct-charged to grants will be recorded. Held preliminary discussion with EPA, waiting for further information from EPA auditors.
Field administrative staff not allocated	NPS 7610803 DWRf 7610804 PPG 7610805	\$0.00	Practice of charging field staff will be discontinued.	Practice of allocating field administrative costs has been discontinued. Only administrative costs that can be direct-charged to grants will be recorded on NPS, DWRf and PPG programs.
Monitoring of subrecipients insufficient	SRF 7610802 DWRf 7610804	\$0.00	DEQ will develop a plan to improve consistency and documentation of monitoring.	Plan submitted by division consists of: Review of existing procedure manual with site inspection procedures. Discussion of the following at SRF/DWRf staff meetings: a) project managers should be reminded that DEQ needs to be copied on all contract progress meetings minutes; b) all draw requests need to have supporting documentation included with/or submitted immediately after the request; c) staff were encouraged to make site visits where possible; d) all communication with the applicant or engineer about project progress needs to be documented to the file.

DEPARTMENT OF ENVIRONMENTAL QUALITY
Summary of Findings and Corrective Action Status - FY06 and FY07 Single Audit

FINDING	PROGRAM(S)	QUESTIONED COSTS	CORRECTIVE ACTION	CORRECTIVE ACTION STATUS
Recommendations DEQ disagrees with:				
Overcharged administrative costs	CZM 7610801	\$115,248.00	DEQ disagrees with questioned costs. Seek clarification from EPA/DOC-NOAA on acceptability of regarding these as a total program. Request forgiveness of questioned costs.	The project manager at the DOC-NOAA has been contacted to begin negotiation. Preliminary discussions have been held with EPA regarding questioned costs, continuing environmental programs and performing offset in PPG program.
	NPS 7610803	\$32,324.00		
	DWRF 7610804	\$33,522.00		
	PPG 7610805	\$271,049.00		
Matching eligibility not verified	NPS 7610803	\$0.00	MAIN profiling error corrected.	Adherence to policy of not allowing MAIN profiles to be changed will preclude recurrence of this error.
Total questioned costs	CZM	\$118,757.00		Preliminary discussions have been held with EPA regarding questioned costs. Program manager at DOC-NOAA has been contacted to begin negotiations regarding questioned costs.
	NPS	\$77,339.00		
	DWRF	\$36,102.00		
	PPG	\$271,335.00		
		\$503,533.00		