



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF NATURAL RESOURCES & ENVIRONMENT  
LANSING



REBECCA A. HUMPHRIES  
DIRECTOR

October 15, 2010

Mr. Doug Ringler, Director  
Office of Internal Audit Services  
Office of the State Budget  
George W. Romney Building  
111 South Capitol, 6<sup>th</sup> 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 audit report of the Department of Environmental Quality, now part of the Department of Natural Resources and Environment (DNRE). The period for this audit is October 1, 2007 through September 30, 2009.

Questions regarding the summary table or corrective action plans should be directed to Ms. Sharon Maher, Federal Aid Coordinator, Administration Division, at 517-241-7991 or at mahers@michigan.gov.

Sincerely,

Signature Redacted

(/James M. Kasprzak, Chief  
Administration Division

Enclosure

cc/enc: Mr. Nate Lake, Executive Office  
Senator Valde Garcia  
Representative Doug Bennett  
Mr. Gary Olson, Senate Fiscal Agency  
Mr. Mitchell Bean, House Fiscal Agency  
Mr. Tommy Benson, Office of the State Budget  
Mr. Jim Sygo, Deputy Director, Environmental Protection, DNRE  
Ms. Mindy Koch, Deputy Director, Resource Management, DNRE  
Mr. Bill Creal, DNRE  
Mr. Vinson Hellwig, DNRE  
Ms. Liane Shekter-Smith, DNRE  
Ms. Sharon Schafer, DNRE  
Ms. Sharon Maher, DNRE

**DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**Summary of Findings and Corrective Action Status - FY08 and FY09 Single Audit**

FINDING	PROGRAM(S)	QUESTIONED COSTS	CORRECTIVE ACTION	CORRECTIVE ACTION STATUS
<b>Recommendations DEQ- Environment agrees with and will comply:</b>				
Activities Allowed or Unhallowed (a) DEQ project managers did not approve all reimbursement requests submitted by borrowers.	CWSRF 7611003	\$0.00	(a) Implement a new process for project managers to follow when reviewing reimbursement requests.	(a) The new process was implemented during fiscal year 2007-08, additional training and follow-up was implemented during fiscal year 2008-09 and will continue in the future.
Allowable Costs/Cost Principles (b)(1) DEQ overcharged federal grants for allocated payroll charges. (b)(2) DEQ project managers did not approve all expenditure requests submitted by borrowers.	CWSRF 7611003	\$13,042.00	(b)(1) DEQ stopped allocating administrative costs to CWSRF grants during fiscal year 2008-09. All employees cost-account their hours. The questioned costs relate to administrative allocations for 2007-08. (b)(2) Implement a new process for project managers to follow when reviewing reimbursement requests	b(1) DEQ employees will continue to cost account their time, thus administrative allocations are not required. b(2) The new process was implemented during fiscal year 2007-08, additional training and follow-up was implemented during fiscal year 2008-09.
Allowable Costs/Cost Principles (a)(1) DEQ overcharged federal grant for allocated payroll charges. (a)(2) DEQ did not have a process to document employees agreement to changes made on their timesheet by their supervisor.	CZM 76111001	\$0.00	(a)(1) Remove grant coding from DCDS default coding for any employees who may work on other projects. Require that employees cost-account their hours. (a)(2) DCDS is used to record employees time and process payroll. Submit a request for an enhancement to the Statewide DCDS to address this issue.	(a)(1) This change was made in the Coastal Zone Management (CZM) program beginning June 14,2010. (a)(2) Request was submitted in July 2010.
Allowable Costs/Cost Principles (a) DEQ overcharged federal grants for allocated payroll charges.	DWSRF 7611005	\$0.00	(a) DEQ stopped allocating administrative costs to the DWSRF grants during fiscal year 2008-09. All employees cost-account their hours.	(a) DEQ employees will continue to cost account their time, thus administrative allocations are not required.
Allowable Costs/Cost Principles (a) DEQ did not have a process to document that an employee agreed with the time and attendance if it was submitted by his/her supervisor on his behalf.	AIR 7611002	\$450.00	(a) DCDS is used to record employees time and process payroll. Submit a request for an enhancement to the Statewide DCDS to address this issue.	(a) Request was submitted in July 2010
Allowable Costs/Cost Principles (a)(3) DEQ did not have a process in place to adjust budgeted payroll costs to actual costs for one employee reported as match.	NPS 7611004	\$0.00	(a)(3) DEQ stopped allocating administrative costs to NPS grants during fiscal year 2008-09. All employees cost-account their hours.	(a)(3) DEQ employees will continue to cost account their time, thus administrative allocations are not required and no further corrective action is needed.
Matching, Level of Effort, Earmarking (b)(2) DEQ did not have a process to document employees agreement to changes made on their timesheet by their supervisor.	AIR 7611002	\$0.00	(b)(2) DCDS is used to record employees time and process payroll. Submit a request for an enhancement to the Statewide DCDS to address this issue.	(b)(2) Request was submitted in July 2010.
Matching, Level of Effort, Earmarking (c) DEQ overcharged federal grants for allocated payroll charges.	CWSRF 7611003	\$0.00	(c) DEQ stopped allocating administrative costs to CWSRF grants during fiscal year 2008-09. All employees cost-account their hours. The questioned costs relate to administrative allocations for 2007-08.	(c) DEQ employees will continue to cost account their time, thus administrative allocations are not required.

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<p>Matching, Level of Effort, Earmarking            (b)(1)(a) DEQ overcharged federal grant for allocated payroll charges.            (b)(1)(b) DEQ did not have a process to document employees agreement to changes made on their timesheet by their supervisor.            (b)(2) DEQ did not consistently require subrecipients to submit supporting documentation of expenditure of matching.</p>	CZM 76111001	\$0.00	<p>(b)(1)(a) Remove grant coding from DCDS default coding for any employees who may work on other projects. Require that employees cost-account their hours.            (b)(1)(b) DCDS is used to record employees time and process payroll. Submit a request for an enhancement to the Statewide DCDS to address this issue.            (b)(2) Implement revised reporting requirements with the 2009 award cycle. Require detailed documentation.</p>	<p>(b)(1)(a) This change was made in the Coastal Zone Management (CZM) program beginning June 14,2010. (b)(1)(b) Request was submitted in July 2010. (b)(2) DEQ implemented revised reporting requirements with the 2009 award cycle. Detailed documentation is now required for payroll, travel, equipment, supplies, and other contractual expenses.</p>
<p>Matching, Level of Effort, Earmarking            (b)(1)(a) DEQ did not ensure the propriety of NPS Program matching expenditures. DEQ required grantees to submit quarterly financial reports with limited supporting documentation.            (b)(1)(b) DEQ did not have a process in place to adjust budgeted payroll costs to actual costs for one employee reported as match.            (b)(1)(c) DEQ did not have a comprehensive process in place to include and monitor matching expenditures from all sources.</p>	NPS 7611004	\$0.00	<p>(b)(1)(a) DEQ will develop additional guidance for grantees to ensure compliance with federal regulations.            (b)(1)(b) DEQ stopped allocating administrative costs to NPS grants during fiscal year 2008-09.            (b)(1)(c) Financial and Business Services Division (FBSD) and NPS staff will devise a process for reporting local match on a quarterly basis.</p>	<p>(b)(1)(a) Guidance is currently being developed. The NPS Program implemented an updated match documentation form that grantees will use starting with their July – September 2010 reports; that form requires grantees to include the basis for the costs used as match on one standardized form. The email to grantees announcing the use of the new match documentation form also included a reminder that all matching costs need a basis for the costs submitted, and provided some examples. The NPS Program will address the issue of in-kind services and look for improvements in other areas by March 2011.            (b)(1)(b) Allocation is no longer required, corrective action is complete.            (b)(1)(c) FBSD and NPS staff are working together to develop new process. Admin Section will develop a worksheet to track each individual project under each grant to ensure all local match is reported on a quarterly basis.</p>
<p>Procurement and Suspension and Debarment            (b) DEQ did not complete a checklist to document that the Excluded Parties List System was checked prior to approving a reimbursement request.</p>	DWSRF 7611005	\$0.00	<p>(b) DEQ's process requires that the program manager document that s/he checked the Excluded Parties List System to determine whether an entity has been suspended or debarred.</p>	<p>(b) Additional training and follow up was completed to remind program managers of the requirements.</p>
<p>Procurement and Suspension and Debarment            (d) DEQ did not complete a checklist to document that the Excluded Parties List System was checked prior to approving a reimbursement request.</p>	CWSRF 7611003	\$0.00	<p>(d) DEQ's process requires that the program manager document that s/he checked the Excluded Parties List System to determine whether an entity has been suspended or debarred.</p>	<p>(d) Additional training and follow up was completed to remind program managers of the requirements.</p>
<p>Reporting            (e)(1) DEQ's methodology to calculate the jobs created or retained in the ARRA Section 1512 for the period ending 09/30/09 was not in accordance with the OMB June 2009 Guidance.</p>	CWSRF 7611003	\$0.00	<p>(e)(1) DEQ has revised the instructions to subrecipients regarding the jobs created and retained calculations.</p>	<p>(e)(1) Instructions to subrecipients were revised prior to the July 12, 2010 reporting deadline.</p>

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<p><b>Reporting</b>  (c)(1) DEQ overstated outlays and recipient share of expenditures on the 2007-08 financial status report for one grant.  (c)(2) DEQ made several errors on the 2008-09 federal financial report for one grant award.  (c)(3) DEQ's methodology to calculate the jobs created or retained in the ARRA Section 1512 for the period ending 09/30/09 was not in accordance with the OMB June 2009 Guidance.</p>	DWSRF 7611005	\$0.00	(c)(1) and (c)(2) This finding was the result of significant turnover in staff combine with a large increase in work load due to the ARRA grant requirements. DEQ clarified the requirements, conducted training with staff and emphasized supervisory review. (c)(3) DEQ has revised the instructions to subrecipients regarding the jobs created and retained calculations.	(c)(1) and (c)(2) Corrective action is complete. (c)(3) Instructions to subrecipients were revised prior to the July 12, 2010 reporting deadline.
<p><b>Special Tests and Provisions</b>  (g)(3) DEQ did not have a process in place to ensure that program managers documented completion of environmental reviews.</p>	CWSRF 7611003	\$0.00	(g)(3) DEQ will continue to use the cross-cutter checklist to document the completion of the environmental reviews.	(g)(3) Additional training and follow up was completed to remind program managers of the requirements.
<p><b>Subrecipient Monitoring</b>  (c)(1) DEQ did not consistently require subrecipients to submit supporting documentation of expenditures of federal funds.  (c)(2) DEQ did not receive a Single Audit Report for all required subrecipients</p>	NPS 7611004	0.00	(c)(1) Develop an improved monitoring process to ensure compliance with federal regulations. (c)(2) Increase efforts to obtain 100% of audit reports. Implement review by federal aid coordinator.	(c)(1) The new process was implemented during fiscal year 2007-08, additional training and follow-up was implement in during fiscal year 2008-09 and will continue in the future. (c)(2) Corrective action implemented with review of the FY2009 audits.
<p><b>Subrecipient Monitoring</b>  (c)(1) DEQ did not consistently require subrecipients to submit supporting documentation of expenditures of federal funds.  (c)(2) DEQ did not receive a Single Audit Report for all required subrecipients.</p>	CZM 76111001	0.00	(c)(1) Develop an improved monitoring process to ensure compliance with federal regulations. (c)(2) Increase efforts to obtain 100% of audit reports. Implement review by federal aid coordinator.	(c)(1) Implemented monitoring process, revised instructions to subrecipients, trained program staff, instituted additional supervisory review during FY09. (c)(2) Corrective action implemented with review of the FY2009 audits.
<p><b>Subrecipient Monitoring</b>  (d)(3) DEQ did not consistently require subrecipients to submit supporting documentation of expenditures of federal funds.  (d)(4) DEQ did not receive a Single Audit Report for all required subrecipients.</p>	DWSRF 7611005	0.00	(d)(3) Develop an improved monitoring process to ensure compliance with federal regulations. (d)(4) Increase efforts to obtain 100% of audit reports. Implement review by federal aid coordinator.	(d)(3) The new process was implemented during fiscal year 2007-08, additional training and follow-up was implement in during fiscal year 2008-09 and will continue in the future. (d)(4) Corrective action implemented with review of the FY2009 audits.
<p><b>Subrecipient Monitoring</b>  (f)(3) DEQ did not consistently require subrecipients to submit supporting documentation of expenditures of federal funds.  (f)(4) DEQ did not receive a Single Audit Report from all subrecipients required to submit one.</p>	CWSRF 7611003	0.00	(f)(3) Develop an improved monitoring process to ensure compliance with federal regulations. (f)(4) Increase efforts to obtain 100% of audit reports. Implement review by federal aid coordinator.	(f)(3) The new process was implemented during fiscal year 2007-08, additional training and follow-up was implement in during fiscal year 2008-09 and will continue in the future. (f)(4) Corrective action implemented with review of the FY2009 audits.

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<b>Recommendations DEQ disagrees with:</b>				
Allowable Costs/Cost Principles (a)(1) DEQ did not ensure that NPS Program expenditures were paid based on actual billing.	NPS 7611004	\$0.00	(a)(1) DEQ disagrees with the finding. The expenditure was approved for payment after the staff reviewed a cover letter, financial status report, proof of payment to the contractor, a summary of time sheets provided by the contractor indicating the number of hours worked, rate of pay and travel costs and a narrative description of each task. The invoices submitted with this documentation were marked "Draft." The subrecipient subsequently provided final invoices that were initialed and dated to reflect receipt prior to payment.	DEQ continues to review and approve payment of original, final invoices.
Allowable Costs/Cost Principles (a)(2) DEQ did not have a process to document employees agreement to changes made on their timesheet by their supervisor.	NPS 7611004	\$207.00	(a)(2) DEQ agrees with the finding but disagrees with the questioned costs. Subsequent to the auditor's identification of this error, the employee was contacted. He confirmed the activity and certified that the time sheet was accurate.	(a)(2) Request was submitted in July 2010.
Matching, Level of Effort, Earmarking (b)(1) DEQ overmatched the federal grant in both fiscal years of the audit period. DEQ could not provide sufficient documentation to support how much of the match and overmatch was for activities that were not required by the grant work plan. The auditors could not determine the required maintenance of effort level for either fiscal year, or if DEQ complied with maintenance of effort requirements.	AIR 7611002	\$0.00	(b)(1) DEQ disagrees with the finding,. The finding is contrary to the interpretation and guidance provided by the U. S. Environmental Protection Agency (EPA).	(b)(1) The DEQ disagrees with the finding. It will implement an accounting solution to separately identify activities required by the grant award at such time as the USEPA, Region 5 Administrator accepts the interpretation made by the Michigan Office of Auditor General.
Matching, Level of Effort, Earmarking (b)(2)(a) DEQ's process to identify administrative expenses excluded some costs which the auditors believe should be included. (b)(2)(b) DEQ excluded indirect costs allocated to the program based on programmatic salaries.	NPS 7611004	\$41,161.00	(b)(2)(a) DEQ will continue to seek written guidance from the EPA regarding the identification of costs. (b)(2)(b) DEQ will continue to seek written guidance from EPA regarding identification of administrative costs.	(b)(2)(a) In process. (b)(2)(b) In process.
Reporting (c) DEQ did not ensure that its State-funded air pollution expenditures were recorded in the accounting records in a way that separately identified activities required by the grant award from activities not required by the award.	AIR 7611002	\$0.00	(c) DEQ disagrees with the finding,. The finding is contrary to the interpretation and guidance provided by the U. S. Environmental Protection Agency (EPA).	(c) The DEQ disagrees with the finding. It will implement an accounting solution to separately identify activities required by the grant award at such time as the USEPA, Region 5 Administrator accepts the interpretation made by the Michigan Office of Auditor General.
Reporting (c)(4) DEQ did not have a process in place to verify the accuracy of the information contained in the ARRA Section 1512 report.	DWSRF 7611005	\$0.00	(c)(4) DEQ disagrees in part with the finding. The OMB guidance stipulates that the prime recipient has primary responsibility for the quality of the data submitted on the ARRA 1512 reports. Given the tight reporting schedule, there is not adequate time to extensively review and validate all of the data elements submitted by the subrecipients prior to the due dates.	(c)(4) DEQ established a process to review as many of the data elements as possible before the submissions date. Errors discovered after the due date are corrected during the next reporting cycle.

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**Summary of Findings and Corrective Action Status - FY08 and FY09 Single Audit**

FINDING	PROGRAM(S)	QUESTIONED COSTS	CORRECTIVE ACTION	CORRECTIVE ACTION STATUS
<p><b>Reporting</b>            (e)(2) DEQ did not have a process in place to verify the accuracy of the information contained in the ARRA Section 1512 report.</p>	CWSRF 7611003	\$0.00	(e)(2) DEQ disagrees in part with the finding. The OMB guidance does stipulate that the prime recipient has primary responsibility for the quality of the data submitted on the ARRA 1512 reports. Given the tight reporting schedule, there is not adequate time to extensively review and validate all of the data elements submitted by the subrecipients prior to the due dates.	(e)(2) DEQ established a process to review as many of the data elements as possible before the submissions date. Errors discovered after the due date are corrected during the next reporting cycle.
<p><b>Subrecipient Monitoring</b>            (d)(1) DEQ did not have a process in place to adequately monitor the activities of the subrecipients expending ARRA funds for construction activities to ensure that the subrecipient complied with the Davis-Bacon Act.</p>	DWSRF 7611005	\$0.00	(d)(1) DEQ disagrees in part with the finding. DEQ received the ARRA award on April 13, 2009. It included a standard condition that stipulated that all laborers and mechanics employed by contractors and subcontractors funded with the grant should be paid prevailing wages. On August 28, 2009, one month before the end of the audit period and four months after the application process for subrecipients began, and amendment was issued that contained the first guidance regarding the requirements of the Davis-Bacon Act. It did not include any guidance regarding the EPA's expectation for monitoring. On March 25, EPA issue a State ARRA Inspection Checklist and provided training regarding its use. DEQ adopted the checklist and began to use it to assist in monitoring subrecipients.	DEQ will continue to use the checklist as a basis for monitoring ARRA subrecipients' compliance with the Davis-Bacon Act.
<p><b>Subrecipient Monitoring</b>            (d)(2) DEQ did not have a process in place to adequately monitor the activities of the subrecipients expending ARRA funds for construction activities to ensure that the subrecipient complied with the Buy American Act.</p>	DWSRF 7611005	\$0.00	(d)(2) DEQ disagrees in part with the finding. The circumstances surrounding the Buy American Act requirements are identical to those outlined in (f)(1) above.	DEQ will continue to use the checklist as a basis for monitoring ARRA subrecipients' compliance with the Buy American Act.
<p><b>Subrecipient Monitoring</b>            (f)(1) DEQ did not have a process in place to adequately monitor the activities of the subrecipients expending ARRA funds for construction activities to ensure that the subrecipient complied with the Davis-Bacon Act.</p>	CWSRF 7611003	\$0.00	(f)(1) DEQ disagrees in part with the finding. DEQ received the ARRA award on April 13, 2009. It included a standard condition that stipulated that all laborers and mechanics employed by contractors and subcontractors funded with the grant should be paid prevailing wages. On August 28, 2009, one month before the end of the audit period and four months after the application process for subrecipients began, and amendment was issued that contained the first guidance regarding the requirements of the Davis-Bacon Act. It did not include any guidance regarding the EPA's expectation for monitoring. On March 25, EPA issue a State ARRA Inspection Checklist and provided training regarding its use. DEQ adopted the checklist and began to use it to assist in monitoring subrecipients.	DEQ will continue to use the checklist as a basis for monitoring ARRA subrecipients' compliance with the Davis-Bacon Act.

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<b>Subrecipient Monitoring</b> (f)(2) DEQ did not have a process in place to adequately monitor the activities of the subrecipients expending ARRA funds for construction activities to ensure that the subrecipient complied with the Buy American Act.	CWSRF 7611003	\$0.00	(f)(2) DEQ disagrees in part with the finding. The circumstances surrounding the Buy American Act requirements are identical to those outlined in (f)(1) above.	DEQ will continue to use the checklist as a basis for monitoring ARRA subrecipients' compliance with the Buy American Act.

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<b>Recommendations DEQ complied with:</b>				
<b>Allowable Costs/Cost Principles</b> (a) DEQ did not maintain the required payroll certifications for 1 sampled payroll expenditure	PPG 7611006	\$0.00	(a) DEQ implemented a new process during the audit period that improved internal control over the payroll certification process. Due to human error in implementing the process, one certification was omitted during the review process. DEQ has implemented an additional review procedure to provide additional assurance that all required certifications are obtained.	(a) Corrective action is complete.
<b>Matching, Level of Effort, Earmarking</b> (b)(1) DEQ did not initially identify sufficient State expenditures to meet its matching requirement for fiscal year 2008-09. (b)(2) DEQ did not maintain the required payroll certifications for 1 sampled payroll expenditure.	PPG 7611006	\$0.00	(b)(1) This finding was the result of significant turnover in staff combined with a large increase in work load due to the ARRA grant requirements. The underlying financial data was correct; an error was made in preparing the federal financial report. DEQ will conduct training with employees preparing the federal financial reports and emphasize the importance of supervisory review. (b)(2) DEQ implemented a new process during the audit period that improved internal control over the payroll certification process. Due to human error in implementing the process, one certification was omitted during the review process. DEQ has implemented an additional review procedure to provide additional assurance that all required certifications are obtained.	(b)(1) and (b)(2) Corrective actions have been implemented.
<b>Reporting</b> (c)(1) DEQ overstated federal authorization and federal expenditures, understated recipient match requirement and recipient match expenditures, indirect cost base and indirect costs.	PPG 7611006	\$0.00	(c)(1) This finding was the result of significant turnover in staff combined with a large increase in work load due to the ARRA grant requirements. The underlying financial records were accurate, the errors were made in preparing the reports. DEQ clarified the requirements, conducted training with staff and emphasized supervisory review.	(c)(1) Corrective action is complete.
<b>Special Test and Provisions</b> (e)(2) DEQ did not have a process in place to inform subrecipients of the requirement to specifically identify ARRA funding in their Schedule of Expenditures of Federal Awards.	DWSRF 7611005	\$0.00	(e)(2) DEQ modified the letters to include the information regarding the requirement to specifically identify ARRA funding on the Schedules of Expenditures of Federal Awards and Data Collection Forms.	(e)(2) DEQ modified the letters to include the information regarding the requirement to specifically identify ARRA funding on the Schedules of Expenditures of Federal Awards and Data Collection Forms.
<b>Special Test and Provisions</b> (g)(2) DEQ did not have a process in place to inform subrecipients of the requirement to specifically identify ARRA funding in their Schedule of Expenditures of Federal Awards.	CWSRF 7611003	\$0.00	(g)(2) DEQ modified the letters to include the information regarding the requirement to specifically identify ARRA funding on the Schedules of Expenditures of Federal Awards and Data Collection Forms.	(g)(2) DEQ modified the letters to include the information regarding the requirement to specifically identify ARRA funding on the Schedules of Expenditures of Federal Awards and Data Collection Forms.

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<b>Special Tests and Provisions</b> (e)(1) DEQ did not have a process in place to inform subrecipients of the federal award number at the time of the subaward and did not inform the subrecipients of the award number and the amount of ARRA funds at the time of disbursement.	DWSRF 7611005	\$0.00	(e)(1) DEQ modified the letters to include the award number and amount of ARRA funds.	(e)(1) DEQ modified the letters to include the award number and amount of ARRA funds.

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FINDING	PROGRAM(S)	QUESTIONED COSTS	CORRECTIVE ACTION	CORRECTIVE ACTION STATUS
<b>Special Tests and Provisions</b> (g)(1) DEQ did not have a process in place to inform subrecipients of the federal award number at the time of the sub award and did not inform the subrecipients of the award number and the amount of ARRA funds at the time of disbursement.	CWSRF 7611003	\$0.00	(g)(1) DEQ modified the letters to include the award number and amount of ARRA funds.	(g)(1) DEQ modified the letters to include the award number and amount of ARRA funds.