

## 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, 1995 through September 30, 1997.

---

### 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 of 1984 and federal Office of Management and Budget Circular A-128, *Audits of State and Local Governments*.

---

### 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.

On August 1, 1995, the Governor issued Executive Order 1995-18, which divided the Department of Natural Resources (DNR) into two departments and created DEQ as a separate department composed of environmental protection and regulatory programs. Executive Order

1995-18 took effect on October 1, 1995, but the two departments continued to share certain central administrative functions, including accounting and federal grant reporting. These shared functions remained at DNR until December 19, 1996.

Other Executive Orders impacting DEQ during our audit period included: Executive Order 1996-1, which transferred certain environmental health programs to DEQ from the Department of Public Health (now known as the Department of Community Health); Executive Order 1996-2, which transferred the Low-Level Radioactive Waste Authority to DEQ from the Department of Commerce (now known as the Department of Consumer and Industry Services); and Executive Order 1997-3, which transferred the Environmental Administration Division to DEQ from the Department of Management and Budget.

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

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, 1997, DEQ had 1,368 full-time and 71 part-time employees, and its General Fund expenditures and operating transfers out and special revenue fund expenditures were approximately \$201.9 million for fiscal year 1996-97.

---

AUDIT OBJECTIVES  
AND CONCLUSIONS

**Audit Objective:** To assess the adequacy of DEQ's internal control structure\*, including applicable administrative controls related to the management of federal financial assistance programs.

**Conclusion:** Our assessment of DEQ's internal control structure disclosed reportable conditions\* related to separation of duties in the Drinking Water and Radiological Protection Division, the Personnel-Payroll Information System for Michigan daily transaction control log, and separation of duties in payroll functions (Findings 1 through 3).

In addition, our assessment indicated that DEQ 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.

**Audit Objective:** To assess DEQ's compliance with both State and federal laws and regulations that could have a material effect on DEQ's financial statements, its financial schedules, or any of its major federal financial assistance programs.

**Conclusion:** Our assessment of compliance with laws and regulations did not disclose any instances of noncompliance that could have a material effect on DEQ's financial statements or its financial schedules. However, our assessment did disclose material noncompliance\* with

federal laws and regulations pertaining to one of DEQ's major federal financial assistance programs:

- Single Audit reports from subrecipient municipalities did not identify disbursements that the municipalities received from the State Revolving Fund\* as federal financial assistance on their schedules of federal financial assistance (Finding 4).

DEQ disagrees with this finding.

In addition, our assessment disclosed reportable conditions related to subrecipient monitoring, federal grant payroll cost allocation, terminal leave payments\* allocated to federal grants, the federal indirect cost rate, and the establishment of the Drinking Water Revolving Fund\* (Findings 5 through 9).

**Audit Objective:** To audit DEQ's financial statements and schedules for the fiscal years ended September 30, 1997 and September 30, 1996.

**Conclusion:** We expressed an unqualified opinion on DEQ's financial statements and schedules. However, our audit disclosed reportable conditions related to the Bottle Deposits Fund spending authority and accounts payable estimation (Findings 10 and 11).

---

**AUDIT SCOPE**

Our audit scope was to examine the financial and other records of the Department of Environmental Quality for the period October 1, 1995 through September 30, 1997. Our audit was conducted in accordance with generally accepted auditing standards and *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.

Our audit objective for the assessment of the internal control structure included an evaluation of DEQ's implementation of the requirements for establishing and maintaining systems of internal accounting and administrative control, as set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws*.

---

AGENCY RESPONSES  
AND PRIOR AUDIT  
FOLLOW-UP

Our audit report includes 11 findings and recommendations. DEQ agrees in full with 8 findings, agrees in part and disagrees in part with 2 findings, and disagrees with 1 finding.

DEQ had complied with both of the prior DNR audit recommendations related to DEQ's programs that were included within the scope of our current audit.