

FINANCIAL AUDIT  
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT  
OF THE

DEPARTMENT OF AGRICULTURE

October 1, 2000 through September 30, 2002



Michigan  
*Office of the Auditor General*  
**REPORT SUMMARY**

**Financial Audit**

*Including the Provisions of the Single Audit Act  
 October 1, 2000 through September 30, 2002*

**Department of Agriculture**

Report Number:  
 79-100-03

Released:  
 June 2003

*A Single Audit is designed to meet the needs of all financial report users, including an entity's federal grantor agencies. The audit determines if the financial schedules and/or financial statements are fairly presented; considers internal control over financial reporting and internal control over federal program compliance; determines compliance with State compliance requirements material to the financial schedules and/or financial statements; and assesses compliance with direct and material requirements of the major federal programs.*

**Financial Schedules:**

**Auditor's Report Issued**

We issued an unqualified opinion on the Department's financial schedules.

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**Internal Control Over Financial Reporting**

We did not identify any material weaknesses in internal control over financial reporting. However, we did identify reportable conditions (Findings 1 through 3).

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**Noncompliance Material to  
 the Financial Schedules**

We did not identify any instances of noncompliance applicable to the financial schedules that are required to be reported under *Government Auditing Standards*.

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**Federal Awards:**

**Auditor's Reports Issued on Compliance**

We audited 7 programs as major programs and issued 7 unqualified opinions. The federal programs audited as major programs are identified on the back of this summary.

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**Internal Control Over Major Programs**

We did not identify any material weaknesses in internal control over major programs. However, we did identify reportable conditions (Findings 4 through 10).

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**Required Reporting of Noncompliance**

We identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 (Findings 4 through 7).

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**Systems of Accounting and Internal Control:**

We determined that the Department was in substantial compliance with Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws*.

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We audited the following programs as major programs:

<u>CFDA Number</u>	<u>Program Title</u>	<u>Compliance Opinion</u>
10.025	Plant and Animal Disease, Pest Control, and Animal Care	Unqualified
10.163	Market Protection and Promotion	Unqualified
10.450	Crop Insurance - Risk Management Training and Information for Michigan Specialty Crop Producers	Unqualified
10.664	Cooperative Forestry Assistance	Unqualified
10.913	Farmland Protection Program	Unqualified
10	State Grants to Promote Agriculture - Specialty Crops	Unqualified
94.006	AmeriCorps	Unqualified

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: [www.state.mi.us/audgen/](http://www.state.mi.us/audgen/)



Michigan Office of the Auditor General  
201 N. Washington Square  
Lansing, Michigan 48913

**Thomas H. McTavish, C.P.A.**  
Auditor General

**James S. Neubecker, C.P.A., C.I.A., D.P.A.**  
Executive Deputy Auditor General

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THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

June 9, 2003

Ms. Nora M. Viau, Chairperson  
Commission of Agriculture  
and  
Mr. Dan Wyant, Director  
Department of Agriculture  
Constitution Hall  
Lansing, Michigan

Dear Ms. Viau and Mr. Wyant:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Agriculture for the period October 1, 2000 through September 30, 2002.

This report contains our report summary; our independent auditor's report on the financial schedules; and the Department of Agriculture financial schedules, notes to the financial schedules, and schedule of expenditures of federal awards. This report also contains our independent auditor's reports on compliance and on internal control over financial reporting and on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133 and our schedule of findings and questioned costs. In addition, this report contains the Department's summary schedule of prior audit findings, its corrective action plan, and a glossary of acronyms and terms.

Our findings and recommendations are contained in Section II and Section III of the schedule of findings and questioned costs. The agency preliminary responses are contained in the corrective action plan. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

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## TABLE OF CONTENTS

### DEPARTMENT OF AGRICULTURE

	<u>Page</u>
Report Summary	1
Report Letter	3
INDEPENDENT AUDITOR'S REPORT AND FINANCIAL SCHEDULES	
Independent Auditor's Report on the Financial Schedules	7
Department of Agriculture Financial Schedules	
Schedule of General Fund Revenues and Transfers	9
Schedule of Sources and Disposition of General Fund Authorizations	10
Notes to the Financial Schedules	11
SUPPLEMENTAL FINANCIAL SCHEDULE	
Schedule of Expenditures of Federal Awards	16
INDEPENDENT AUDITOR'S REPORTS ON COMPLIANCE AND INTERNAL CONTROL	
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting	20
Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	22

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results	25
Section II: Findings Related to the Financial Schedules	26
1. Controls Over Procurement Cards	26
2. Controls Over Travel Reimbursements	28
3. Cash Management	30
Section III: Findings and Questioned Costs Related to Federal Awards	31
4. Personnel-Related Cost Distribution	31
5. AmeriCorps Eligibility Documentation	33
6. Suspension and Debarment Requirements	34
7. Subrecipient Monitoring	36
8. Controls Over Procurement Cards	38
9. Controls Over Travel Reimbursements	38
10. Cash Management	39

## OTHER SCHEDULES

Summary Schedule of Prior Audit Findings	41
Corrective Action Plan	45

## GLOSSARY

Glossary of Acronyms and Terms	49
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AUDITOR GENERAL

## Independent Auditor's Report on the Financial Schedules

March 21, 2003

Ms. Nora M. Viau, Chairperson  
Commission of Agriculture  
and  
Mr. Dan Wyant, Director  
Department of Agriculture  
Constitution Hall  
Lansing, Michigan

Dear Ms. Viau and Mr. Wyant:

We have audited the financial schedules of the Department of Agriculture for the fiscal years ended September 30, 2002 and September 30, 2001, as identified in the table of contents. These financial schedules are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial schedules include only the revenues and transfers and the sources and disposition of authorizations for the Department of Agriculture's General Fund accounts, excluding the Michigan State Fair and Exposition Center accounts, presented using the current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either the



Department or the State's General Fund in accordance with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenues and transfers and the sources and disposition of authorizations of the Department of Agriculture for the fiscal years ended September 30, 2002 and September 30, 2001, on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 21, 2003 on our tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the Department's financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

AUDITOR GENERAL

DEPARTMENT OF AGRICULTURE  
Schedule of General Fund Revenues and Transfers  
Fiscal Years Ended September 30

	<u>2002</u>	<u>2001</u>
REVENUES		
Horse race wagering taxes	\$ 12,801,331	\$ 12,836,451
From federal agencies (Note 3)	7,443,658	3,772,825
From services	1,791,176	1,793,801
From licenses and permits	9,681,406	8,355,228
Miscellaneous	<u>3,297,600</u>	<u>3,469,116</u>
Total Revenues	\$ 35,015,170	\$ 30,227,421
TRANSFERS (Note 4)	<u>5,791,894</u>	<u>991,900</u>
Total Revenues and Transfers	<u>\$ 40,807,064</u>	<u>\$ 31,219,321</u>

The accompanying notes are an integral part of the financial schedules.

DEPARTMENT OF AGRICULTURE  
Schedule of Sources and Disposition of General Fund Authorizations  
Fiscal Years Ended September 30

	2002	2001
<b>SOURCES OF AUTHORIZATIONS (Note 2)</b>		
General purpose appropriations	\$ 41,431,000	\$ 51,794,500
Balances carried forward (Note 3)	19,386,623	25,521,702
Restricted financing sources (Note 3)	40,922,555	31,039,056
Less: Intrafund expenditure reimbursements	(500,313)	(197,482)
Total	\$ 101,239,864	\$ 108,157,775
<b>DISPOSITION OF AUTHORIZATIONS (Note 2)</b>		
Gross expenditures and transfers out (Note 3)	\$ 89,860,705	\$ 88,700,232
Less: Intrafund expenditure reimbursements	(500,313)	(197,482)
Net expenditures and transfers out	\$ 89,360,391	\$ 88,502,749
Balances carried forward:		
Multi-year projects	\$ 2,968,848	\$ 11,783,564
Encumbrances	1,771,414	2,833,047
Restricted revenues - not authorized (Note 3)	5,866,185	4,770,011
Total balances carried forward	\$ 10,606,447	\$ 19,386,623
Balances lapsed	\$ 1,273,026	\$ 268,403
Total	\$ 101,239,864	\$ 108,157,775

The accompanying notes are an integral part of the financial schedules.

## Notes to the Financial Schedules

### Note 1 Significant Accounting Policies

#### a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the Department of Agriculture for the fiscal years ended September 30, 2002 and September 30, 2001. The financial transactions of the Department are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

For purposes of presenting the governmental operations of the Department in the accompanying financial schedules, the operations of the Michigan State Fair and Exposition Center, which are accounted for in the State's General Fund, have been excluded from the Department's financial schedules. Separate financial schedules are issued for the Michigan State Fair and Exposition Center and are audited by the Office of the Auditor General.

The notes accompanying these financial schedules relate directly to the Department. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies; Budgeting, Budgetary Control, and Legal Compliance; and Pension Benefits and Other Postemployment Benefits.

#### b. Measurement Focus, Basis of Accounting, and Presentation

The financial schedules contained in this report are presented using the current financial resources measurement focus and the modified accrual basis of accounting, as provided by generally accepted accounting principles applicable to governments. Under the modified accrual basis of accounting, revenues are recognized as they become susceptible to accrual, generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred;

however, certain expenditures related to long-term obligations are recorded only when payment is due and payable.

The accompanying financial schedules include only the revenues and transfers and the sources and disposition of authorizations for the Department of Agriculture's General Fund accounts, excluding the Michigan State Fair and Exposition Center accounts. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either the Department or the State's General Fund in accordance with generally accepted accounting principles.

Note 2 Schedule of Sources and Disposition of General Fund Authorizations

The various elements of the schedule of sources and disposition of General Fund authorizations are defined as follows:

- a. General purpose appropriations: Original appropriations and any supplemental appropriations that are financed by General Fund/general purpose revenues.
- b. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenues - authorized, and restricted revenues - not authorized that were not spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry-forward without additional legislative authorization, except for the restricted revenues - not authorized.
- c. Restricted financing sources: Collections of restricted revenues, restricted transfers, and restricted intrafund expenditure reimbursements to finance programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenues - authorized or restricted revenues - not authorized.

- d. Intrafund expenditure reimbursements: Funding from other General Fund departments to finance a program or a portion of a program that is the responsibility of the receiving department. Significant intrafund expenditure reimbursements were from the Cooperative Resource Management Initiative (\$238,000, fiscal year 2001-02), Nonpoint Source Implementation Grants (\$161,577 and \$67,483, fiscal years 2001-02 and 2000-01, respectively), Biosolids Sewage Sludge Funds (\$74,240 and \$70,000, fiscal years 2001-02 and 2000-01, respectively), and Surveys, Studies, Investigations and Special Purpose Grants (\$60,000, fiscal year 2000-01).
- e. Multi-year projects: Unexpended authorizations for work projects financed with General Fund/general purpose appropriations that are carried forward to subsequent fiscal years for the completion of the projects. Significant carry-forwards of this type were for Bovine Tuberculosis Surveillance and Indemnification (\$2.9 million and \$5.3 million, fiscal years 2001-02 and 2000-01, respectively), Value-Added Processing - Ethanol (\$5.0 million, fiscal year 2000-01), and Food Safety and Quality Assurance (\$1.5 million, fiscal year 2000-01).
- f. Restricted revenues - not authorized: Revenues that, by statute, are restricted for use to a particular program or activity. However, the Department had not received legislative authorization to expend the revenues. Significant carry-forwards of this type were for groundwater and freshwater protection fees (\$1.2 million and \$.8 million, fiscal years 2001-02 and 2000-01, respectively), licensing and inspection fees (\$1.2 million and \$.3 million, fiscal years 2001-02 and 2000-01, respectively), equine development funds (\$.7 million and \$1.1 million, fiscal years 2001-02 and 2000-01, respectively), and agricultural preservation funds (\$1.1 million, fiscal year 2001-02). This line also includes the carry-forward of restricted revenue to finance the Agriculture Preservation Fund Capital Outlay Appropriation of \$1.1 million in fiscal year 2000-01.

Note 3 Corrected Financial Schedule Presentation

The accompanying schedules have been adjusted to reflect the correction of a financial error that occurred in fiscal year 2000-01. The Department received advanced funding for the State Grants to Promote Agriculture - Specialty Crops

block grant from the U.S. Department of Agriculture. In error, the Department recorded the entire advance amount of \$4,084,857 as revenues from federal agencies in fiscal year 2000-01. The entire amount should have been recorded as deferred revenues, a liability. This resulted in an overstatement in the revenues from federal agencies, restricted financing sources, and restricted revenues - not authorized lines of the fiscal year 2000-01 financial schedules and an overstatement of the balances carried forward and expenditures and transfers out lines of the fiscal year 2001-02 financial schedules. During fiscal year 2001-02, the Department recognized the error and processed transactions to reclassify the unearned portion as deferred revenues, recognize the earned portion as revenues from federal agencies, and adjust fund balance. The correction could not be posted retroactively to correct the fiscal year 2000-01 accounting records. The Department requested and the Office of Financial Management, Department of Management and Budget, granted a waiver to present the financial schedules with corrected balances in revenues from federal agencies, restricted financing sources, and restricted revenues - not authorized in fiscal year 2000-01 and balances carried forward and expenditures and transfers out in fiscal year 2001-02.

Note 4 Transfers

The Department received transfers for private oil overcharges of \$987,557 and \$991,900 in fiscal years 2001-02 and 2000-01, respectively. In fiscal year 2001-02, the Department also received transfers of \$3,504,337 from the State Service Fee Fund to fund appropriations of the Fairs, Expositions, and Racing Division and \$1,300,000 from the Michigan Gaming Control Board to fund appropriations of the Office of Racing Commissioner.

Note 5 Contingencies

A judgment of \$96,000 was entered against the Department on July 14, 2001 related to a case involving the Upper Peninsula State Fair. The judgment is unsettled and under appeal by the Department. Because the case is in the appeal process, the possible liability does not meet criteria for recording as an account payable. As of March 21, 2003, the likelihood of loss was not known because the appeals court had not acted yet. If the judgment is upheld, the loss will increase by the amount of interest accumulated since the judgment date of July 14, 2001.

SUPPLEMENTAL  
FINANCIAL SCHEDULE



DEPARTMENT OF AGRICULTURE  
Schedule of Expenditures of Federal Awards (1)  
For the Period October 1, 2000 through September 30, 2002

Federal Agency/Program	CFDA (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2001		
			Directly Expended	Distributed to Subrecipient	Total Expended and Distributed
<b><u>U.S. Department of Agriculture</u></b>					
Direct Programs:					
Plant and Animal Disease, Pest Control, and Animal Care	10.025		\$ 258,873	\$	\$ 258,873
Wildlife Services	10.028				0
Federal-State Marketing Improvement Program	10.156			16,000	16,000
Market Protection and Promotion	10.163		1,662,245		1,662,245
Crop Insurance - Risk Management Training and Information for Michigan Specialty Crop Producers	10.450				0
Cooperative Forestry Assistance	10.664		177,847	200,731	378,578
Farmland Protection Program	10.913				0
State Grants to Promote Agriculture - Specialty Crops	10	(3)			0
Animal Production Food Safety Outreach	10.FSIS-C-28-2001	(3)			0
Federal-State Inspection and Grading Service for Dairy Products	10.12-25-A-3213	(3)	25,007		25,007
Rural Development Council of Michigan	10.43-3157-MI-00SC	(3)	116,600		116,600
Homeland Security Emergency Preparedness and Foreign Animal Disease Response	10.02-9626-0058CA	(3)			0
<b>Total U.S. Department of Agriculture</b>			<b>\$ 2,240,572</b>	<b>\$ 216,731</b>	<b>\$ 2,457,303</b>
<b><u>U.S. Environmental Protection Agency</u></b>					
Direct Programs:					
Performance Partnership Grants	66.605		\$ 602,227	\$ 173,995	\$ 776,222
Consolidated Pesticide Enforcement Cooperative Agreements	66.700		229,550		229,550
Total Direct Programs			<u>\$ 831,777</u>	<u>\$ 173,995</u>	<u>\$ 1,005,772</u>
Pass-Through Programs:					
Michigan Department of Environmental Quality Nonpoint Source Implementation Grants (Right to Farm and Michigan Agriculture Environmental Assurance Program)	66.460	480319-02	\$ 75,000	\$	\$ 75,000
Great Lakes Program	66.469				0
Surveys, Studies, Investigations and Special Purpose Grants	66.606	470004-94	60,000		60,000
Total Pass-Through Programs			<u>\$ 135,000</u>	<u>\$ 0</u>	<u>\$ 135,000</u>
<b>Total U.S. Environmental Protection Agency</b>			<b>\$ 966,777</b>	<b>\$ 173,995</b>	<b>\$ 1,140,772</b>
<b><u>Federal Emergency Management Agency</u></b>					
Pass-Through Program:					
Michigan Department of State Police Hazard Mitigation Grant	83.548	1128.0004, 1181.001	\$ 87,467	\$ 0	\$ 87,467
<b>Total Federal Emergency Management Agency</b>			<b>\$ 87,467</b>	<b>\$ 0</b>	<b>\$ 87,467</b>

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2002

Pass-Through Identification Number	Directly Expended	Distributed to Subrecipient	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
	\$ 419,795	\$ 1,268,476	\$ 1,688,271	\$ 1,947,144
	15,000		15,000	15,000
		24,000	24,000	40,000
	1,768,563		1,768,563	3,430,808
	77,661	83,743	161,404	161,404
	252,916	41,251	294,167	672,744
	539,200		539,200	539,200
	176,430	1,493,444	1,669,873	1,669,873
	4,620		4,620	4,620
	22,276		22,276	47,282
			0	116,600
	5,892		5,892	5,892
	<b>\$ 3,282,352</b>	<b>\$ 2,910,913</b>	<b>\$ 6,193,265</b>	<b>\$ 8,650,568</b>
	\$ 717,567	\$ 16,714	\$ 734,281	\$ 1,510,503
	267,038	41,601	308,639	538,189
	<b>\$ 984,605</b>	<b>\$ 58,315</b>	<b>\$ 1,042,920</b>	<b>\$ 2,048,692</b>
480325-02, 480319-01 430063-01	\$ 75,000	\$ 120,694	\$ 195,694	\$ 270,694
	3,755		3,755	3,755
			0	60,000
	<b>\$ 78,755</b>	<b>\$ 120,694</b>	<b>\$ 199,449</b>	<b>\$ 334,449</b>
	<b>\$ 1,063,360</b>	<b>\$ 179,009</b>	<b>\$ 1,242,369</b>	<b>\$ 2,383,141</b>
1181.001	\$ 8,391	\$	\$ 8,391	\$ 95,858
	<b>\$ 8,391</b>	<b>\$ 0</b>	<b>\$ 8,391</b>	<b>\$ 95,858</b>

DEPARTMENT OF AGRICULTURE  
Schedule of Expenditures of Federal Awards (1)  
For the Period October 1, 2000 through September 30, 2002  
Continued

Federal Agency/Program	CFDA (2) Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipient	Total Expended and Distributed
<b><u>U.S. Department of Health and Human Services</u></b>					
Direct Programs:					
Food Sanitation Inspections	93.220-00-4011, 223-01-4011 (3)		\$ 84,314	\$	\$ 84,314
Medicated Feed Inspections	93.223-01-4025 (3)		13,210		13,210
Tissue Residue Inspections	93.220-00-4010, 223-01-4010 (3)		9,000		9,000
Total Direct Programs			\$ 106,524	\$ 0	\$ 106,524
Research and Development:					
Food and Drug Administration: Research	93.103		\$ 4,708	\$	\$ 4,708
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ 111,232</b>	<b>\$ 0</b>	<b>\$ 111,232</b>
<b><u>Corporation for National and Community Service</u></b>					
Pass-Through Program:					
Michigan Department of Career Development AmeriCorps (Groundwater Stewardship)	94.006	01- IA-005	\$ 191,000	\$ 0	\$ 191,000
<b>Total Corporation for National and Community Service</b>			<b>\$ 191,000</b>	<b>\$ 0</b>	<b>\$ 191,000</b>
Total Expenditures of Federal Awards			<b>\$ 3,597,048</b>	<b>\$ 390,726</b>	<b>\$ 3,987,774</b>

(1) Basis of Presentation: This schedule includes the federal grant activity of the Department of Agriculture and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial schedules.

(2) CFDA is defined as *Catalog of Federal Domestic Assistance*.

(3) CFDA number not available. Number derived from federal agency number and grant or contract number, if available.

For the Fiscal Year Ended September 30, 2002

Pass-Through Identification Number	Directly Expended	Distributed to Subrecipient	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
	\$ 93,331	\$	\$ 93,331	\$ 177,645
	45,613		45,613	58,823
	17,346		17,346	26,346
	<u>\$ 156,290</u>	<u>\$ 0</u>	<u>\$ 156,290</u>	<u>\$ 262,813</u>
	\$ 5,174	\$	\$ 5,174	\$ 9,882
	<u>\$ 161,464</u>	<u>\$ 0</u>	<u>\$ 161,464</u>	<u>\$ 272,696</u>
02-IA-017, 01-IA-005	\$ 195,017	\$ 0	\$ 195,017	\$ 386,017
	<u>\$ 195,017</u>	<u>\$ 0</u>	<u>\$ 195,017</u>	<u>\$ 386,017</u>
	<u>\$ 4,710,582</u>	<u>\$ 3,089,922</u>	<u>\$ 7,800,505</u>	<u>\$ 11,788,279</u>



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THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

## Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting

March 21, 2003

Ms. Nora M. Viau, Chairperson  
Commission of Agriculture  
and  
Mr. Dan Wyant, Director  
Department of Agriculture  
Constitution Hall  
Lansing, Michigan

Dear Ms. Viau and Mr. Wyant:

We have audited the financial schedules of the Department of Agriculture for the fiscal years ended September 30, 2002 and September 30, 2001, as identified in the table of contents, and have issued our report thereon dated March 21, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the Department's financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide assurance on internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be

reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 1 through 3.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions identified in the previous paragraph is a material weakness.

This report is intended solely for the information and use of the Commission of Agriculture, the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL



STATE OF MICHIGAN  
OFFICE OF THE AUDITOR GENERAL  
201 N. WASHINGTON SQUARE  
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THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

Independent Auditor's Report on Compliance With  
Requirements Applicable to Each Major Program  
and on Internal Control Over Compliance in  
Accordance With OMB Circular A-133

March 21, 2003

Ms. Nora M. Viau, Chairperson  
Commission of Agriculture  
and  
Mr. Dan Wyant, Director  
Department of Agriculture  
Constitution Hall  
Lansing, Michigan

Dear Ms. Viau and Mr. Wyant:

Compliance

We have audited the compliance of the Department of Agriculture with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each major federal program for the two-year period ended September 30, 2002. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the previous paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with

those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

In our opinion, the Department of Agriculture complied, in all material respects, with the requirements referred to in the second previous paragraph that are applicable to each major federal program for the two-year period ended September 30, 2002. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 4 through 7.

#### Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over compliance that, in our judgment, could adversely affect the Department's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 4 through 10.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions identified in the previous paragraph is a material weakness.



This report is intended solely for the information and use of the Commission of Agriculture, the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS\*

## Section I: Summary of Auditor's Results

### Financial Schedules

Type of auditor's report issued:	Unqualified*
Internal control* over financial reporting:	
Material weaknesses* identified?	No
Reportable conditions* identified that are not considered to be material weaknesses?	Yes
Noncompliance material to the financial schedules?	No

### Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, Section 510(a)?	Yes

\* See glossary at end of report for definition.

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
10.025	Plant and Animal Disease, Pest Control, and Animal Care
10.163	Market Protection and Promotion
10.450	Crop Insurance - Risk Management Training and Information for Michigan Specialty Crop Producers
10.664	Cooperative Forestry Assistance
10.913	Farmland Protection Program
10	State Grants to Promote Agriculture - Specialty Crops
94.006	AmeriCorps

Dollar threshold used to distinguish between type A and type B programs: \$353,648

Auditee qualified as a low-risk auditee\*? No

## **Section II: Findings Related to the Financial Schedules**

### **FINDING (790301)**

#### **1. Controls Over Procurement Cards\***

The Department of Agriculture's internal control did not ensure that procurement card users complied with Department and Department of Management and Budget (DMB) policies and procedures.

\* See glossary at end of report for definition.

The Department used procurement cards to make purchases totaling approximately \$2.1 million during the audit period (October 1, 2000 through September 30, 2002). Our review of 717 transactions disclosed the following instances of noncompliance with policies and procedures:

- a. In 103 instances, totaling \$18,446, merchandise receipts were not retained or were incomplete. As a result, we could not verify the appropriateness of the purchases. The Department of Agriculture Procedure Manual and the State of Michigan Procurement Card Program's Cardholder Manual require that card users obtain and retain merchandise receipts.
- b. In 37 instances, totaling \$10,419, the purchasers used the procurement card to make purchases that were not allowed under the policies or that were questionable as to their relationship to State business. The Department's Procedure Manual and the Program's Cardholder Manual prohibit using procurement cards for commodities and services that are available on a Statewide contract, for travel expenses, for personal use, or for health or medical services. The Department had required that an employee reimburse the State in 2 of the 37 instances, after determining that these purchases were inappropriate. The 2 instances totaled \$1,900.
- c. In 138 instances, totaling \$18,101, supervisory approval of the transactions was not evident on receipts, transaction logs, or billing details. The Department's Procedure Manual requires that a supervisor approve all purchases.
- d. In 8 instances, totaling \$22,823, the purchasers circumvented Department procedures by splitting the purchases to avoid exceeding the \$2,500 individual transaction limit. The Department's Procedure Manual and the Program's Cardholder Manual prohibit splitting charges in order to avoid exceeding the individual transaction limit.

In response to similar findings in the two prior audit reports, the Department indicated that it agreed with the findings and would comply with the corresponding recommendation.

## **RECOMMENDATION**

WE AGAIN RECOMMEND THAT THE DEPARTMENT ENHANCE ITS INTERNAL CONTROL TO ENSURE THAT PROCUREMENT CARD USERS COMPLY WITH DEPARTMENT AND DMB POLICIES AND PROCEDURES.

## **FINDING (790302)**

### **2. Controls Over Travel Reimbursements**

The Department needs to improve controls over employee travel reimbursements.

In July 2000, the Department implemented an electronic travel reimbursement system. Employees were given access to the electronic system after completing a self-study course on the Department's intranet site. Employees were instructed to enter their travel reimbursement requests electronically, print and sign a copy of the voucher, attach the original receipts to the voucher, retain both the vouchers and receipts in a folder provided by the Department, and submit all vouchers and receipts to the Department when they terminate employment. Reimbursement requests were processed through a series of edits within the electronic travel reimbursement system and then interfaced to the Michigan Administrative Information Network\* (MAIN), where warrants were generated and mailed to the employees. The travel system processed \$1.5 million and \$1.6 million of expenditures in fiscal years 2001-02 and 2000-01, respectively.

Our review of the electronic travel reimbursement system's controls disclosed:

- a. The system did not provide for approval of travel expenditures by the employees' supervisors or other verification that the employees were entitled to travel reimbursement. Also, the system did not generate reports to the supervisors to indicate which employees were requesting and receiving travel reimbursements. Without these control features, employees could submit fictitious travel reimbursement requests without their supervisors' knowledge. Although accounting staff performed random audits of travel reimbursements, they did not contact the employees' supervisors to verify that the employees traveled for work purposes during the time period of the reimbursement request. Also, accounting staff did not possess knowledge of the employees'

\* See glossary at end of report for definition.

work responsibilities or schedules that would enable them to determine whether the employees' travel was work-related.

- b. The Department did not ensure that employees followed the Department's procedures or retained all of the required documentation.

Our expenditure testing disclosed one employee who had not submitted required travel documentation upon terminating his employment with the State. The Department subsequently retrieved the documentation from the former employee.

We expanded our testing to include a sample of 22 employees who had received travel reimbursements and had terminated employment with the State during our audit period. Our review disclosed:

- (1) The Department had not obtained the files from 9 of the employees at the time that they terminated employment. The reimbursements to these employees totaled \$23,621 and \$33,368 in fiscal years 2001-02 and 2000-01, respectively. The Department contacted some of the former employees and was able to retrieve 2 of the missing files.
- (2) The employees had not signed the travel reimbursement vouchers in 8 of the 15 files available for review.
- (3) Three of the 15 files available for review did not contain all of the vouchers and/or receipts.

The Department explained that its key compensating controls were the honesty of its employees and the random audits performed by accounting staff. In examining the audit testing work sheets prepared in fiscal year 2001-02, we determined that the random selection methodology had resulted in testing at least one voucher from about 48% of the employees who submitted travel vouchers. However, it resulted in verification of only about 10% of the dollars paid out. Additionally, when the accounting staff noted missing receipts or other problems with an employee's travel voucher, they did not follow up by reviewing future travel vouchers unless those happened to be randomly selected in future months.

## **RECOMMENDATION**

We recommend that the Department improve controls over employee travel reimbursements.

## **FINDING (790303)**

### **3. Cash Management**

The Department's controls did not provide for compliance with federal and State cash management standards.

The Department's drawdown of federal funds that are not subject to the federal Cash Management Improvement Act are to be made in accordance with federal cash management requirements, Section 18.1395(5) of the *Michigan Compiled Laws*, and DMB Administrative Guide procedure 1210.06, which permit the use of General Fund/general purpose appropriations only after the available restricted funds have been used. The federal and DMB standards also require the Department to minimize the time elapsing between the transfer of funds from the U.S. Department of Treasury and the pay out of funds by the State.

Our examination of all AmeriCorps Program drawdowns made during fiscal years 2001-02 and 2000-01 disclosed:

- a. The Department did not draw any fiscal year 2001-02 funds until October 2002. The AmeriCorps Program expended approximately \$189,000 during fiscal year 2001-02.
- b. The Department made 5 draws in fiscal year 2000-01; however, it did not minimize the time elapsed between draws and expenditures. The time elapsed between incurring expenditures and requesting drawdown of funds ranged from 4 to 187 days. The AmeriCorps Program expended approximately \$185,000 during fiscal year 2000-01.

Based on the State Treasurer's Common Cash rate of return, we estimated that the State lost interest income of approximately \$1,961 and \$1,929 in fiscal years 2001-02 and 2000-01, respectively, on draws related to the AmeriCorps Program.

In response to a similar finding in our prior audit, the Department indicated that it agreed with the finding and would comply with the corresponding recommendation. The Department demonstrated significant improvements in the cash management practices for the other federal programs we reviewed.

**RECOMMENDATION**

WE AGAIN RECOMMEND THAT THE DEPARTMENT ENHANCE ITS CONTROLS TO PROVIDE FOR COMPLIANCE WITH FEDERAL AND STATE CASH MANAGEMENT STANDARDS.

**The status of the findings related to the financial schedules that were reported in prior Single Audits is disclosed in the summary schedule of prior audit findings.**

**Section III: Findings and Questioned Costs Related to Federal Awards**

**FINDING (790304)**

**4. Personnel-Related Cost Distribution**

U.S. Department of Agriculture	CFDA: 10.450 Crop Insurance - Risk Management Training and Information for Michigan Specialty Crop Producers
Partnership Agreement Number: 01-IE-0831-106	Award Period: 09/30/2001 - 09/30/2002
	Questioned Costs: \$11,695

U.S. Department of Agriculture	CFDA: 10 State Grants to Promote Agriculture - Specialty Crops
Grant Agreement Number: None	Award Period: 09/20/2001 - 09/30/2004
	Questioned Costs: \$62,676

The Department had not established controls to ensure that personnel-related cost distributions to the Crop Insurance - Risk Management Training and Information for Michigan Specialty Crop Producers Program (Crop Insurance Program) and the State Grants to Promote Agriculture - Specialty Crops Program (Specialty Crops



Program) were accurate and properly documented in accordance with federal requirements.

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment B, requires employee salaries and wages that are chargeable to more than one grant program or other cost objective to be supported by personnel activity reports or equivalent documentation. OMB Circular A-87 states that the personnel activity reports must reflect the after-the-fact distribution of the actual activity of each employee, account for the total activity for which the employee is compensated, be prepared at least monthly and coincide with one or more pay periods, and be signed by the employee. OMB Circular A-87 also states that costs allocated to a federal program should be allocated in accordance with the relative benefits received.

Our review of all personnel-related cost distributions and time sheets disclosed:

- a. The Department recorded the same expenditures twice. The Department processed two different sets of accounting adjustments to transfer the same expenditures from the original General Fund/general purpose-funded cost center to the federally funded cost center. The expenditures totaled \$9,740 for the Crop Insurance Program and \$29,082 for the Specialty Crops Program. These expenditures consist of wages and fringe benefits for various program employees.
- b. The Department did not use a time and activity report for the Specialty Crops Program that accounted for the total activity for which the employees were compensated. The Department recorded \$33,594 of expenditures using the various time and attendance recording methods, some of which did not provide positive affirmation of when an employee worked. Instead, the method presumed that an employee was at work unless an absence was recorded. The expenditures consist of wages and fringe benefits for various program employees.
- c. The personnel-related cost distribution for 1 of 25 pay periods reviewed for the Crop Insurance Program did not agree with the hours reported on an employee's time and activity report. The time and activity report indicated that the employee did not work on the federal program during that pay period;

however, the Department charged the federal program \$1,955. The expenditures consist of wages and fringe benefits for one program employee.

**RECOMMENDATION**

We recommend that the Department establish controls to ensure that personnel-related cost distributions to the Crop Insurance Program and the Specialty Crops Program are accurate and properly documented in accordance with federal requirements.

**FINDING (790305)**

**5. AmeriCorps Eligibility Documentation**

Corporation for National and Community Service	CFDA: 94.006 AmeriCorps
Interagency Agreement Number: 02-IA-017	Award Period: 10/01/2001 - 09/30/2002
Pass-Through Agency: Michigan Department of Career Development	Questioned Costs: \$2,357

The Department did not document that all AmeriCorps members met program eligibility requirements.

Title 45, Part 2522, Section 200 of the *Code of Federal Regulations (CFR)*, requires that an AmeriCorps participant be at least 17 years of age; have a high school diploma or its equivalent; and be a citizen, national, or lawful permanent resident alien of the United States. Federal regulation 45 *CFR* 2522.200 also states that a written declaration regarding a high school diploma or equivalent is sufficient for enrollment. Further, the regulation states that a birth certificate showing that the individual was born in one of the 50 states, a U.S. passport, a certification of report of birth issued by the U.S. Department of State, or a certificate of naturalization or citizenship issued by the Immigration and Naturalization Service are all acceptable forms of certifying status as a U.S. citizen or national.

We reviewed 12 and 8 AmeriCorps member files for fiscal years 2001-02 and 2000-01, respectively. For fiscal year 2001-02, 3 (25%) of 12 files were missing documentation to support that the AmeriCorps members were U.S. citizens who were at least 17 years of age and had received a high school diploma or

equivalent. The stipends paid to these 3 members for the fiscal year totaled \$18,605.

Subsequent to the end of our audit fieldwork, the Department provided us with eligibility documentation for 2 of the 3 members. We have reduced the questioned costs accordingly.

**RECOMMENDATION**

We recommend that the Department document that all AmeriCorps members meet program eligibility requirements.

**FINDING (790306)**

**6. Suspension and Debarment Requirements**

U.S. Department of Agriculture	CFDA: 10.025 Plant and Animal Disease, Pest Control, and Animal Care
Cooperative Agreement Number: 01-9626-00038CA	Award Period: 08/01/2001 - 07/31/2003
	Questioned Costs: None

U.S. Department of Agriculture	CFDA: 10.913 Farmland Protection Program
Cooperative Agreement Number: 68-5D21-1-110	Award Period: 09/10/2001 - 09/30/2003
	Questioned Costs: None

U.S. Department of Agriculture	CFDA: 10 State Grants to Promote Agriculture - Specialty Crops
Grant Agreement Number: None	Award Period: 09/20/2001 - 09/30/2004
	Questioned Costs: None

The Department had not established controls to ensure compliance with federal suspension and debarment requirements.

Each program's grant, cooperative, or partnership agreement between the Department and the U.S. Department of Agriculture required that the Department administer the programs in accordance with Title 7, Part 3016, of the *Code of Federal Regulations*, entitled "Uniform Administrative Requirements for Grants and

Cooperative Agreements to State and Local Governments." Federal regulation 7 CFR 3016.35 prohibits the State from awarding grants to individuals or organizations that have been suspended or debarred or otherwise excluded from doing business with the federal government.

Our review of suspension and debarment requirements for the major federal programs disclosed:

- a. The Department did not obtain certifications from any of the 23 Specialty Crops Program subrecipients\* to document that they had not been suspended or debarred or otherwise excluded from doing business with the federal government.
- b. The Department did not obtain certifications from 2 of the 4 Plant and Animal Disease, Pest Control, and Animal Care (Bovine Tuberculosis Eradication Program) subrecipients to document that they had not been suspended or debarred or otherwise excluded from doing business with the federal government. The remaining 2 subrecipients were other State departments for which the Department did not need to obtain certifications.
- c. The Department did not obtain certifications from the 2 Farmland Protection Program property owners to document that they had not been suspended or debarred from doing business with the federal government.

For each of the programs, we determined that the Department did not verify the subrecipients' or property owners' status on the Federal Excluded Party Listing On-Line System in lieu of obtaining certifications.

We reviewed the Federal Excluded Party Listing On-Line System and determined that none of the subrecipients or property owners were on the excluded list and, accordingly, we have not reported the grant or contract payments as questioned costs.

## **RECOMMENDATION**

We recommend that the Department establish controls to ensure compliance with federal suspension and debarment requirements.

\* See glossary at end of report for definition.

## **FINDING (790307)**

### **7. Subrecipient Monitoring**

U.S. Department of Agriculture	<i>CFDA</i> : 10.025 Plant and Animal Disease, Pest Control, and Animal Care
Cooperative Agreement Number: 01-9626-00038CA	Award Period: 08/01/2001 - 07/31/2003
	Questioned Costs: None

U.S. Department of Agriculture	<i>CFDA</i> : 10.450 Crop Insurance - Risk Management Training and Information for Michigan Specialty Crop Producers
Partnership Agreement Number: 01-IE-0831-106	Award Period: 09/30/2001 - 09/30/2002
	Questioned Costs: None

U.S. Department of Agriculture	<i>CFDA</i> : 10.664 Cooperative Forestry Assistance
Grant Numbers: 02-DG-11244225-337 01-DG-11244225-169	Award Periods: 10/01/2001 - 12/31/2002 10/01/2000 - 03/31/2002
	Questioned Costs: None

U.S. Department of Agriculture	<i>CFDA</i> : 10 State Grants to Promote Agriculture - Specialty Crops
Grant Agreement Number: None	Award Period: 09/20/2001 - 09/30/2004
	Questioned Costs: None

The Department had not established controls to ensure that it satisfied the pass-through entity responsibilities as established OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

OMB Circular A-133 establishes the responsibilities for State entities that provide federal funds to subrecipients that carry out federal programs. The Circular refers to the State as a pass-through entity in these cases. Section 400(d) of the Circular indicates that the pass-through entity shall:

- a. Identify federal awards by informing each subrecipient of the *CFDA* title and number.

- b. Monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with the provisions of the contracts or grant agreements and that performance goals are achieved.
- c. Ensure that subrecipients expending \$300,000 or more in federal awards during the subrecipients' fiscal year have met the audit requirements for that fiscal year.
- d. Issue a management decision on audit findings within six months after receipt of a subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

We reviewed all of the subrecipient files for the following programs:

- a) Plant and Animal Disease, Pest Control, and Animal Care (Bovine Tuberculosis Eradication Program) (4 in fiscal year 2001-02).
- b) Crop Insurance (5 in fiscal year 2001-02).
- c) Cooperative Forestry Assistance (3 and 8 in fiscal years 2001-02 and 2000-01, respectively).
- d) Specialty Crops (23 in fiscal year 2001-02).

Our review of the Department's subrecipient monitoring for these major federal programs disclosed:

- (a) The Department did not notify the 5 Crop Insurance Program subrecipients of the correct *CFDA* title and number.
- (b) The Department did not ensure that the largest Crop Insurance Program subrecipient met the requirements of its grant agreements. For 2 of 3 grants in our sample, the Department issued payments to the subrecipient for the full grant amount without requiring that the subrecipient submit any of the required progress reports or any other documentation supporting completion of the grant activities.

- (c) The Department did not obtain completed OMB Circular A-133 audit disclosure forms from 12 of the 23 Specialty Crops Program subrecipients. These forms are used to identify which subrecipients are required to have an A-133 audit performed.
- (d) The Department did not determine if any of the four programs' subrecipients complied with the audit requirements for the fiscal year in which they incurred program expenditures.
- (e) The Department did not request, obtain, or review audit reports for any of the four programs' subrecipients in order to issue a management decision on any audit findings and ensure that the subrecipients took timely corrective action.

**RECOMMENDATION**

We recommend that the Department establish controls to ensure that it satisfies the pass-through entity responsibilities as established in OMB Circular A-133.

**FINDING (790308)**

**8. Controls Over Procurement Cards**

All federal programs	Questioned Costs: None
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This finding is included in Section II of the schedule of findings and questioned costs (790301).

**FINDING (790309)**

**9. Controls Over Travel Reimbursements**

All federal programs	Questioned Costs: None
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This finding is included in Section II of the schedule of findings and questioned costs (790302).

**FINDING (790310)**

**10. Cash Management**

Corporation for National and Community Service	CFDA: 94.006 AmeriCorps
Interagency Agreement Number: 02-IA-017 01-IA-005	Award Period: 10/01/2001 - 09/30/2002 10/01/2000 - 09/30/2001
Pass-Through Agency: Michigan Department of Career Development	Questioned Costs: None

This finding is included in Section II of the schedule of findings and questioned costs (790303).

**The status of the findings related to the federal awards that were reported in prior Single Audits is disclosed in the summary schedule of prior audit findings.**



## OTHER SCHEDULES

DEPARTMENT OF AGRICULTURE  
Summary Schedule of Prior Audit Findings  
As of September 30, 2002

**PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES**

Audit Findings That Have Been Fully Corrected:

**Audit Period:** October 1, 1998 through September 30, 2000

**Finding Number:** 790101

**Finding Title:** Internal Audit

**Finding:** The Department of Agriculture had not established organizational independence for its internal auditor in compliance with statutory requirements.

**Comments:** A change in organizational structure was made in April 2001 in which the internal auditor reports only to the Department's deputy director and does not have management responsibility for programmatic areas.

**Audit Period:** October 1, 1998 through September 30, 2000

**Finding Number:** 790104

**Finding Title:** Encumbrances

**Finding:** The Department did not establish encumbrances in accordance with Department of Management and Budget (DMB) Administrative Guide procedure 1210.27.

**Comments:** Effective April 2001, accounting staff established encumbrances for only items that were signed and dated by the cut-off date.

**Audit Period:** October 1, 1998 through September 30, 2000

**Finding Number:** 790105

**Finding Title:** Controls Over MAIN User Access

**Finding:** The Department needs to strengthen its controls over Michigan Administrative Information Network (MAIN) user access by establishing and documenting compensating controls for incompatible user class combinations and providing written affirmation of the internal control risk to DMB.

**Comments:** By the end of June 2001, all MAIN user classes were reviewed and either the user class was removed so as to have no conflict or a department risk assessment was performed that describes the inherent risk, compensating controls, and written affirmation that the risk is acceptable to the Department.

Audit Findings Not Corrected or Partially Corrected:

**Audit Period:** October 1, 1998 through September 30, 2000

**Finding Number:** 790102

**Finding Title:** Cash Management

**Finding:** The Department's internal control did not provide for compliance with State and federal cash management standards.

**Comments:** The Department implemented control procedures to review the level of expenditures against federal awards and initiate timely drawdowns of federal funds. Its procedures include a weekly review of spending activity on all active awards and expected timely cash draws. The Department is aware of a control lapse for the AmeriCorps grants during fiscal year 2001-02; thus, it has substantially, but not fully, complied.

**Audit Period:** October 1, 1998 through September 30, 2000

**Finding Number:** 790103

**Finding Title:** Procurement Card Usage

**Finding:** The Department's internal control did not ensure that procurement card users complied with DMB and Department of Agriculture policies and procedures.

**Comments:** A training program was developed which was administered to all cardholders prior to them receiving a new procurement card when the State changed card vendors. New card users go through training before they are issued a card. Material exceptions were referred to the internal auditor for follow-up.

**PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS**

Audit Findings That Have Been Fully Corrected:

**Audit Period:** October 1, 1998 through September 30, 2000  
**Finding Number:** 790106  
**Finding Title:** Personnel-Payroll Cost Distributions

**Finding:** The Department had not established controls to ensure that personnel-payroll cost distributions to the Market Protection and Promotion - Pesticide Data Program (PDP) were accurate and properly documented in accordance with federal requirements.

**Comments:** Effective June 2001, the employee time and attendance report is used to distribute the actual activity of each employee who is chargeable to more than one cost objective. This form is signed by the employee and accounts for the total activity for which the employee is compensated. The Department reviewed its procedures and revised, as appropriate, the accounting treatment of terminal leave payoffs and the federal programs to which they are charged.

Audit Findings Not Corrected or Partially Corrected:

**Audit Period:** October 1, 1998 through September 30, 2000  
**Finding Number:** 790107  
**Finding Title:** Cash Management

**Comments:** See Finding 790102 with the findings related to the financial schedules.

**Audit Period:** October 1, 1998 through September 30, 2000

**Finding Number:** 790108

**Finding Title:** Procurement Card Usage

**Comments:** See Finding 790103 with the findings related to financial schedules.

DEPARTMENT OF AGRICULTURE

Corrective Action Plan

As of April 15, 2003

**FINDINGS RELATED TO THE FINANCIAL SCHEDULES**

**Finding Number:** 790301

**Finding Title:** Controls Over Procurement Cards

**Management Views:** The Department agrees with the finding.

**Corrective Action:** The Department will enhance internal control through further education in the use of the procurement cards along with increased verification that the controls are working.

**Anticipated Completion Date:** May 2003

**Responsible Individual:** Michael DiBernardo

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**Finding Number:** 790302

**Finding Title:** Controls Over Travel Reimbursements

**Management Views:** The Department agrees with the finding.

**Corrective Action:** The Department will provide timely reports to supervisors of those employees requesting travel reimbursement so travel may be verified; modify procedures to enhance the accountability of travel reimbursement documentation; provide additional education in documentation needed to support travel expenditures; and modify the sampling process to increase the coverage of dollars expended.

**Anticipated Completion Date:** April 2004

**Responsible Individual:** Rick Harper

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**Finding Number:** 790303

**Finding Title:** Cash Management

**Management Views:** The Department agrees with the finding.

**Corrective Action:** The Department will establish processes to ensure that billings for federal funds are billed on a timely basis.

**Anticipated Completion Date:** June 2003

**Responsible Individual:** Rick Harper

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#### **FINDINGS RELATED TO FEDERAL AWARDS**

**Finding Number:** 790304

**Finding Title:** Personnel-Related Cost Distribution

**Management Views:** The Department agrees with the finding.

**Corrective Action:** The Department will modify time and attendance reports, which are signed by the employees, to support federal program charges and account for the employees' total activity. The Department will implement additional procedures to ensure the prevention of duplicate labor adjustments.

**Anticipated Completion Date:** May 2003

**Responsible Individual:** Robert Craig

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**Finding Number:** 790305

**Finding Title:** AmeriCorps Eligibility Documentation

**Management Views:** The Department agrees with the finding.

**Corrective Action:** The Department will establish procedures to ensure that eligibility is verified and documented prior to paying AmeriCorps participants. Internal Audit staff will verify eligibility documentation for program years 2001 through 2003 and adjustments will be made, if necessary.

**Anticipated Completion Date:** June 2003

**Responsible Individual:** Vicki Pontz-Teachout

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**Finding Number:** 790306

**Finding Title:** Suspension and Debarment Requirements

**Management Views:** The Department agrees with the finding.

**Corrective Action:** The Department established procedures that included obtaining certification that subrecipients had not been suspended or debarred or otherwise excluded from doing business with the federal government as part of the grant/contracting process.

**Anticipated Completion Date:** Completed October 2002

**Responsible Individual:** Michael DiBernardo

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**Finding Number:** 790307  
**Finding Title:** Subrecipient Monitoring

**Management Views:** The Department agrees with the finding.

**Corrective Action:** The Department established procedures that include obtaining certification to identify if an A-133 audit will be performed as part of the grant/contracting process. In addition, the Department established a process to track and review A-133 audits and address any weaknesses.

**Anticipated Completion Date:** Completed October 2002

**Responsible Individual:** Michael DiBernardo

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**Finding Number:** 790308  
**Finding Title:** Controls Over Procurement Cards

See Finding 790301 with the findings related to the financial schedules.

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**Finding Number:** 790309  
**Finding Title:** Controls Over Travel Reimbursement

See Finding 790302 with the findings related to the financial schedules.

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**Finding Number:** 790310  
**Finding Title:** Cash Management

See Finding 790303 with the findings related to the financial schedules.

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## Glossary of Acronyms and Terms

<b>CFDA</b>	<i>Catalog of Federal Domestic Assistance.</i>
<b>CFR</b>	<i>Code of Federal Regulations.</i>
<b>Crop Insurance Program</b>	Crop Insurance - Risk Management Training and Information for Michigan Specialty Crop Procedures Program.
<b>DMB</b>	Department of Management and Budget.
<b>financial audit</b>	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are fairly presented in conformity with the disclosed basis of accounting.
<b>internal control</b>	A process, effected by management, designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
<b>low-risk auditee</b>	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual Single Audit and it meets other criteria related to prior audit results. In accordance with State statute, this Single Audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.
<b>material misstatement</b>	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the results of operations or cash flows in conformity with the disclosed basis of accounting.

**material noncompliance** Violations of laws and regulations that could have a direct and material effect on major federal programs or on financial schedule and/or financial statement amounts.

**material weakness** A reportable condition related to the design or operation of internal control that does not reduce to a relatively low level the risk that either misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

**Michigan Administrative Information Network (MAIN)** The State's fully integrated automated administrative management system that supports the accounting, payroll, purchasing, contracting, budgeting, personnel, and revenue management activities and requirements. MAIN consists of four major components: MAIN Enterprise Information System (EIS); MAIN Financial Administration and Control System (FACS); MAIN Human Resource System (HRS); and MAIN Management Information Database (MIDB).

**OMB** U.S. Office of Management and Budget.

**procurement card** A credit card issued to State employees for purchasing commodities and services in accordance with the State purchasing policies.

**questioned cost** A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or

(3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

**reportable condition**

A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the entity's ability to (1) record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules and/or financial statements or (2) administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants.

**Single Audit**

A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.

**SOMCAFR**

*State of Michigan Comprehensive Annual Financial Report.*

**Specialty Crops Program**

State Grants to Promote Agriculture - Specialty Crops Program.

**subrecipient**

A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.

**unqualified opinion**

An auditor's opinion in which the auditor states that:

- a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; or
- b. The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules taken by themselves; or
- c. The audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.