



# MICHIGAN

OFFICE OF THE AUDITOR GENERAL

## AUDIT REPORT



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

“...The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.”

– Article IV, Section 53 of the Michigan Constitution

Audit report information may be accessed at:

*<http://audgen.michigan.gov>*



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

*Financial Audit*  
*Including the Provisions of the Single Audit Act*

Report Number:  
79-100-05

*Department of Agriculture*

*October 1, 2002 through September 30, 2004*

Released:  
August 2005

*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.

~ ~ ~ ~ ~

**Internal Control Over Financial Reporting**

We did not identify any material weaknesses in internal control over financial reporting. However, we did identify a reportable condition (Finding 1).

~ ~ ~ ~ ~

**Noncompliance and Other Matters  
Material to the Financial Schedules**

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

~ ~ ~ ~ ~

**Federal Awards:**

**Auditor's Reports Issued on Compliance**

We audited 5 programs as major programs and issued 4 unqualified opinions and 1 adverse opinion. The opinions issued by major program are identified on the back of this summary.

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**Internal Control Over Major Programs**

We identified reportable conditions related to internal control over major programs (Findings 2 through 4). We consider Finding 2 to be a material weakness.

~ ~ ~ ~ ~

**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 2 through 4).

~ ~ ~ ~ ~

**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*.

~ ~ ~ ~ ~

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.UNKNOWN	Specialty Crops	Adverse
66.605	Performance Partnership Grants	Unqualified
66.700	Consolidated Pesticide Enforcement Cooperative Agreements	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: <http://audgen.michigan.gov>



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

**Scott M. Strong, C.P.A., C.I.A.**  
Deputy Auditor General



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

August 5, 2005

Mr. James E. Byrum, Chair  
Commission of Agriculture  
and  
Mr. Mitch Irwin, Director  
Department of Agriculture  
Constitution Hall  
Lansing, Michigan

Dear Mr. Byrum and Mr. Irwin:

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, 2002 through September 30, 2004.

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 report on internal control over financial reporting and on compliance and other matters, our independent auditor's report 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 of Agriculture'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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INDEPENDENT AUDITOR'S REPORT AND  
FINANCIAL SCHEDULES



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

## Independent Auditor's Report on the Financial Schedules

Mr. James E. Byrum, Chair  
Commission of Agriculture  
and  
Mr. Dan Wyant, Director  
Department of Agriculture  
Constitution Hall  
Lansing, Michigan

Dear Mr. Byrum and Mr. Wyant:

We have audited the financial schedules of the Department of Agriculture for the fiscal years ended September 30, 2004 and September 30, 2003, 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 present 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 conformity 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, 2004 and September 30, 2003 on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 31, 2005 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of the internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing 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

March 31, 2005

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

	<u>2004</u>	<u>2003</u>
REVENUES		
Horse race wagering taxes	\$ 12,651,347	\$ 12,169,258
From federal agencies	22,509,510	10,363,591
From services	2,462,978	2,196,545
From licenses and permits	10,496,950	9,294,144
Miscellaneous	<u>4,154,633</u>	<u>3,078,262</u>
Total Revenues	\$ 52,275,418	\$ 37,101,800
TRANSFERS (Note 4)	<u>6,139,636</u>	<u>5,815,009</u>
Total Revenues and Transfers	<u>\$ 58,415,054</u>	<u>\$ 42,916,808</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

	<u>2004</u>	<u>2003</u>
<b>SOURCES OF AUTHORIZATIONS (Note 2)</b>		
General purpose appropriations	\$ 30,259,200	\$ 36,773,700
Budgetary transfers in (out)	2,025,000	(255,200)
Balances carried forward	9,020,813	10,606,447
Restricted financing sources	54,777,214	42,795,048
Less: Intrafund expenditure reimbursements	<u>(533,557)</u>	<u>(515,825)</u>
 Total	 <u>\$ 95,548,669</u>	 <u>\$ 89,404,170</u>
 <b>DISPOSITION OF AUTHORIZATIONS (Note 2)</b>		
Gross expenditures and transfers out (Note 3)	\$ 86,104,158	\$ 80,105,116
Less: Intrafund expenditure reimbursements	<u>(533,557)</u>	<u>(515,825)</u>
Net expenditures and transfers out	<u>\$ 85,570,601</u>	<u>\$ 79,589,290</u>
Balances carried forward:		
Multi-year projects	\$	\$ 1,268,803
Encumbrances	298,977	968,707
Restricted revenues - not authorized	<u>8,296,300</u>	<u>6,783,303</u>
Total balances carried forward	<u>\$ 8,595,276</u>	<u>\$ 9,020,813</u>
Balances lapsed (Note 3)	<u>\$ 1,382,793</u>	<u>\$ 794,067</u>
 Total	 <u>\$ 95,548,669</u>	 <u>\$ 89,404,170</u>

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, 2004 and September 30, 2003. 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)*.

The notes accompanying these financial schedules relate directly to the Department. The *SOMCAFR* provides more extensive disclosures regarding the State's significant accounting policies; budgeting, budgetary control, and legal compliance; and pension benefits and other postemployment benefits.

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 entity. Separate audited financial schedules are issued for the Michigan State Fair and Exposition Center and are available from the Office of the Auditor General.

#### 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 present 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 conformity 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 appropriation and any supplemental appropriations that are financed by General Fund/general purpose revenues.
- b. Budgetary transfers in (out): Legislatively approved transfers of spending authorization between accounts within a department or between departments. These also include administrative transfers, such as entries to complete the financial closing of the State's fiscal year, that are approved by the Office of Financial Management, Department of Management and Budget (DMB).
- c. 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.
- d. 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.

- e. 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 Michigan Department of Career Development Groundwater and Freshwater Protection Program (\$136,392 and \$142,190 for fiscal years 2003-04 and 2002-03, respectively) and from the Michigan Department of Environmental Quality Nonpoint Source Implementation Grants (\$136,797 and \$146,664 for fiscal years 2003-04 and 2002-03, respectively).
- f. Multi-year projects: Unexpended authorizations for work projects and capital outlay projects that are carried forward to subsequent fiscal years for the completion of the projects. A significant multi-year carry-forward of \$1,268,803 was carried forward for the Bovine Tuberculosis Surveillance and Indemnification Program.
- g. Encumbrances: Authorizations carried forward to finance payments for goods or services ordered in the old fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general purpose appropriations.
- h. Restricted revenues - not authorized: Revenues that, by statute, are restricted for use to a particular program or activity and require legislative authorization to expend the revenues. Significant carry-forwards of this type were groundwater and freshwater protection fees (\$1.7 million and \$1.1 million for fiscal years 2002-03 and 2003-04, respectively); equine developments funds (\$1.3 million and \$1.2 million for fiscal years 2003-04 and 2002-03, respectively); and agricultural preservation funds (\$1.5 million and \$2.0 million for fiscal years 2003-04 and 2002-03, respectively).

- i. Balances lapsed: Authorizations that were unexpended and unobligated at the end of the fiscal year. These amounts are available for legislative appropriation in the subsequent fiscal year.

Note 3 Payroll and Fringe Benefit Accrual

In fiscal year 2003-04, the DMB Office of Financial Management changed its method of computing and recording accrued payroll and fringe benefit expenditures. In the *SOMCAFR*, the expenditures are not reported at the agency level; instead, they are presented at the Statewide level. The Office of Financial Management has issued a waiver which allows departments to report these transactions in their financial schedules for the fiscal year ended September 30, 2004. Reporting these transactions at the department level resulted in an increase to the Department's expenditures and transfers out and a decrease to balances lapsed of \$0.4 million.

Note 4 Transfers

The Department received transfers in from other State departments of \$6,139,636 in the fiscal year ended September 30, 2004. Transfers included \$5,419,636 from the State Services Fee Fund and \$720,000 in Conservation Reserve Program funding from the Department of Natural Resources. For the fiscal year ended September 30, 2003, the Department received transfers totaling \$5,815,009. These transfers included \$4,823,626 from the State Services Fee Fund and \$991,383 in private oil overcharge settlement fees.



SUPPLEMENTAL  
FINANCIAL SCHEDULE

DEPARTMENT OF AGRICULTURE  
Schedule of Expenditures of Federal Awards (1)  
For the Period October 1, 2002 through September 30, 2004

						<u>For the Fiscal Year Ended September 30, 2003</u>		
<u>Federal Agency/Program</u>	<u>CFDA (2)</u> <u>Number</u>	<u>Pass-Through</u> <u>Identification</u> <u>Number</u>	<u>Directly</u> <u>Expended</u>	<u>Distributed to</u> <u>Subrecipient</u>	<u>Total Expended</u> <u>and Distributed</u>			
<b><u>U.S. Department of Agriculture</u></b>								
Direct Programs:								
Plant and Animal Disease, Pest Control, and Animal Care	10.025		\$ 4,465,924	\$ 766,727	\$ 5,232,651			
Federal-State Marketing Improvement Program	10.156		24,383	16,211	40,594			
Market Protection and Promotion	10.163		1,748,197		1,748,197			
Crop Insurance	10.450		38,317	54,783	93,100			
Cooperative Forestry Assistance	10.664		286,959	78,418	365,377			
Rural Business Enterprise Grants	10.769				0			
Farm and Ranch Lands Protection Program	10.913		265,000		265,000			
Specialty Crops	10.UNKNOWN	(3)	156,731	1,335,167	1,491,898			
Federal-State Inspection and Grading Service for Dairy Products	10.12-25-A-3213	(3)	22,700		22,700			
Seed Program in Support of the Federal Seed Act	10.12-25-A-3336	(3)			0			
Total Direct Programs			<u>\$ 7,008,211</u>	<u>\$ 2,251,306</u>	<u>\$ 9,259,517</u>			
Pass-Through Program:								
Michigan Department of Natural Resources								
Cooperative Forestry Assistance	10.664		\$	\$	\$ 0			
<b>Total U.S. Department of Agriculture</b>			<b><u>\$ 7,008,211</u></b>	<b><u>\$ 2,251,306</u></b>	<b><u>\$ 9,259,517</u></b>			
<b><u>U.S. Environmental Protection Agency</u></b>								
Direct Programs:								
Performance Partnership Grants	66.605		\$ 620,700	\$	\$ 620,700			
Consolidated Pesticide Enforcement Cooperative Agreements	66.700		292,493	5,462	297,955			
Total Direct Programs			<u>\$ 913,193</u>	<u>\$ 5,462</u>	<u>\$ 918,655</u>			
Pass-Through Programs:								
Michigan Department of Environmental Quality								
Nonpoint Source Implementation Grants	66.460	652103-00, 656002-03	\$ 75,000	\$ 171,108	\$ 246,108			
Great Lakes Program	66.469	(4) 659103-00	11,310		11,310			
Hazardous Waste Management State Program Support	66.801	(4)			0			
Total Pass-Through Programs			<u>\$ 86,310</u>	<u>\$ 171,108</u>	<u>\$ 257,418</u>			
<b>Total U.S. Environmental Protection Agency</b>			<b><u>\$ 999,503</u></b>	<b><u>\$ 176,570</u></b>	<b><u>\$ 1,176,073</u></b>			
<b><u>U.S. Department of Health and Human Services</u></b>								
Direct Programs:								
Food Sanitation Inspections	93.223-02-4011, 223-03-4011	(3)	\$ 106,840	\$	\$ 106,840			
Medicated Feed Inspections	93.223-02-4025, 223-03-4025	(3)	28,057		28,057			
Tissue Residue Inspections	93.223-02-4010, 223-03-4010	(3)	38,635		38,635			
Michigan Food Safety Alliance Meetings 06/30/02-06/29/03	93.FD-R-002055-02	(3)	4,826		4,826			
Michigan Food Safety Alliance Meetings 06/30/03-06/29/04	93.FD-R-002055-03	(3)	213		213			
Total Direct Programs			<u>\$ 178,571</u>	<u>\$ 0</u>	<u>\$ 178,571</u>			
Pass-Through Program:								
Michigan Department of Community Health								
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283		\$	\$	\$ 0			
<b>Total U.S. Department of Health and Human Services</b>			<b><u>\$ 178,571</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 178,571</u></b>			

This schedule continued on next page.

Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2004			Total Expended and Distributed for the Two-Year Period
	Directly Expended	Distributed to Subrecipient	Total Expended and Distributed	
	\$ 16,623,488	\$ 802,570	\$ 17,426,058	\$ 22,658,709
		187,634	187,634	228,228
	1,771,244		1,771,244	3,519,441
			0	93,100
	308,049	178,417	486,466	851,843
	64,386	35,000	99,386	99,386
	329,700		329,700	594,700
	212,350	709,879	922,229	2,414,127
	26,935		26,935	49,635
	11,190		11,190	11,190
	<u>\$ 19,347,342</u>	<u>\$ 1,913,500</u>	<u>\$ 21,260,842</u>	<u>\$ 30,520,359</u>
659204-00, 659304-00	\$	\$ 280,000	\$ 280,000	\$ 280,000
	<u>\$ 19,347,342</u>	<u>\$ 2,193,500</u>	<u>\$ 21,540,842</u>	<u>\$ 30,800,359</u>
	\$ 561,850	\$ 48,000	\$ 609,850	\$ 1,230,550
	249,103		249,103	547,058
	<u>\$ 810,953</u>	<u>\$ 48,000</u>	<u>\$ 858,953</u>	<u>\$ 1,777,608</u>
652104-00, 654002-04, 654004-04, 659106-04	\$ 125,000	\$ 576,144	\$ 701,144	\$ 947,252
			0	11,310
659103-04		4,597	4,597	4,597
	<u>\$ 125,000</u>	<u>\$ 580,741</u>	<u>\$ 705,741</u>	<u>\$ 963,159</u>
	<u>\$ 935,953</u>	<u>\$ 628,741</u>	<u>\$ 1,564,694</u>	<u>\$ 2,740,767</u>
	\$ 148,538	\$	\$ 148,538	\$ 255,378
	39,997		39,997	68,054
	23,309		23,309	61,944
	4,787		4,787	9,613
			0	213
	<u>\$ 216,631</u>	<u>\$ 0</u>	<u>\$ 216,631</u>	<u>\$ 395,202</u>
312904-00, 401104-00, 501304-00, 600604-00	\$ 166,392	\$ 0	\$ 166,392	\$ 166,392
	<u>\$ 383,023</u>	<u>\$ 0</u>	<u>\$ 383,023</u>	<u>\$ 561,594</u>

DEPARTMENT OF AGRICULTURE  
Schedule of Expenditures of Federal Awards(1)  
For the Period October 1, 2002 through September 30, 2004  
Continued

			For the Fiscal Year Ended September 30, 2003		
Federal Agency/Program	CFDA (2) Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipient	Total Expended and Distributed
<b><u>Corporation for National and Community Service</u></b>					
Pass-Through Program:					
Michigan Department of Career Development AmeriCorps	94.006	656102-03, 656103-03	\$ 192,129	\$	\$ 192,129
<b>Total Corporation for National and Community Service</b>			<b>\$ 192,129</b>	<b>\$ 0</b>	<b>\$ 192,129</b>
<b><u>U.S. Department of Homeland Security</u></b>					
Pass-Through Program:					
Michigan Department of State Police State Domestic Preparedness Equipment Support Program	97.004		\$	\$	\$ 0
<b>Total U.S. Department of Homeland Security</b>			<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
Total Expenditures of Federal Awards			<u>\$ 8,378,414</u>	<u>\$ 2,427,876</u>	<u>\$ 10,806,290</u>

(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.

(4) The Mercury Clean Sweep Program is financed from pass-through funds from the Michigan Department of Environmental Quality (DEQ). In fiscal year 2002-03, DEQ coded these funds under CFDA 66.469. In fiscal year 2003-04, they were coded as CFDA 66.801. The Department uses the same coding as the sending department on pass-through funds.

Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2004			Total Expended and Distributed for the Two-Year Period
	Directly Expended	Distributed to Subrecipient	Total Expended and Distributed	
656103-04, 656104-04	\$ 141,972	\$	\$ 141,972	\$ 334,101
	<b>\$ 141,972</b>	<b>\$ 0</b>	<b>\$ 141,972</b>	<b>\$ 334,101</b>
100204-04, 101004-04	\$ 134,962	\$	\$ 134,962	\$ 134,962
	<b>\$ 134,962</b>	<b>\$ 0</b>	<b>\$ 134,962</b>	<b>\$134,962</b>
	<b>\$ 20,943,252</b>	<b>\$ 2,822,241</b>	<b>\$ 23,765,493</b>	<b>\$ 34,571,783</b>



# INDEPENDENT AUDITOR'S REPORTS ON INTERNAL CONTROL AND COMPLIANCE



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

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

Mr. James E. Byrum, Chair  
Commission of Agriculture  
and  
Mr. Dan Wyant, Director  
Department of Agriculture  
Constitution Hall  
Lansing, Michigan

Dear Mr. Byrum and Mr. Wyant:

We have audited the financial schedules of the Department of Agriculture for the fiscal years ended September 30, 2004 and September 30, 2003, as identified in the table of contents, and have issued our report thereon dated March 31, 2005. 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.

### 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 an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial schedules. The reportable condition is described in the accompanying schedule of findings and questioned costs as Finding 1.

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 the internal control over financial reporting 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 the reportable condition identified in the previous paragraph is not a material weakness.

#### Compliance and Other Matters

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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

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

March 31, 2005



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

Mr. James E. Byrum, Chair  
Commission of Agriculture  
and  
Mr. Dan Wyant, Director  
Department of Agriculture  
Constitution Hall  
Lansing, Michigan

Dear Mr. Byrum 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, 2004. 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.

As described in Finding 2 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding allowable costs/cost principles; equipment and real property management; matching, level of effort, and earmarking; procurement and suspension and debarment; and subrecipient monitoring that are applicable to its Specialty Crops Program. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to that program.

In our opinion, because of the effects of the noncompliance described in the previous paragraph, the Department of Agriculture did not comply in all material respects, with the requirements referred to in the first paragraph that are applicable to Specialty Crops Program. Also, in our opinion, the Department of Agriculture complied, in all material respects, with the requirements referred to in the first paragraph that are applicable to each of its other major federal programs for the two-year period ended September 30, 2004. The results of our auditing procedures also disclosed other 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 3 and 4.

#### 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 the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the 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 the 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. The reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 2 through 4.

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 caused by error or fraud 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. Our consideration of the 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, of the reportable conditions identified in the previous paragraph, we consider Finding 2 to be 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

March 31, 2005

# 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 weakness\* identified? No

Reportable condition\* identified that is not considered to be a material weakness? Yes

Noncompliance or other matters material to the financial schedules? No

### Federal Awards

Internal control over major programs:

Material weaknesses identified? Yes

Reportable conditions identified that are not considered to be material weaknesses? Yes

Type of auditor's report issued on compliance for major programs:

Unqualified for all major programs except for Specialty Crops, which is adverse\*.

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.UNKNOWN	Specialty Crops
66.605	Performance Partnership Grants
66.700	Consolidated Pesticide Enforcement Cooperative Agreements
94.006	AmeriCorps

Dollar threshold used to distinguish between type A and type B programs: \$1,037,153

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

## Section II: Findings Related to the Financial Schedules

### **FINDING (790501)**

#### 1. Departed Employee Travel Documentation

The Department of Agriculture did not ensure that employees submitted supporting documentation for travel reimbursements prior to terminating their employment.

Department employees electronically enter their travel reimbursement requests into a travel reimbursement system, which interfaces with the Michigan Administrative Information Network\* (MAIN). Employees are responsible for filing their requests electronically and attaching the original receipts to a printed copy of the voucher. When employees terminate their employment, they are required to submit these

\* See glossary at end of report for definition.

records to the Department. The travel reimbursement system processed \$3.4 million and \$2.9 million of expenditures in fiscal years 2003-04 and 2002-03, respectively.

Our review of travel reimbursement for 20 employees who had terminated their employment with the Department during our audit period disclosed:

- a. The Department had not obtained travel files from 3 (15%) of these employees when they terminated employment with the Department. The reimbursements to these employees totaled \$217 and \$1,192 during fiscal years 2003-04 and 2002-03, respectively.
- b. Three (18%) of the remaining 17 travel files were missing between 1 and 8 vouchers and/or receipts. The missing documents ranged from \$29 to \$281 and totaled \$608 and \$2,049 for fiscal years 2003-04 and 2002-03, respectively.

In response to the findings in our prior audit report, the Department implemented a new procedure in February 2004 that requires supervisors to obtain a monthly report of employees within their division receiving travel reimbursements. The supervisors are responsible for determining if travel expenses are reasonable and for following up on any questionable travel costs incurred by the employees. Additionally, the Department explained that it conducts monthly audits of travel reimbursements.

### **RECOMMENDATION**

We recommend that the Department ensure that employees submit supporting documentation for travel reimbursements prior to terminating their employment.

**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 (790502)**

#### 2. Specialty Crops, CFDA 10.UNKNOWN

U.S. Department of Agriculture	CFDA 10.UNKNOWN: Specialty Crops
Partnership Agreement Number: N/A	Award Period: 09/30/2001 - 09/30/2004
	Questioned Costs: \$800,890

The Department's internal control did not ensure that the Specialty Crops Program complied with federal laws and regulations regarding allowable costs/cost principles; equipment and real property management; matching, level of effort, and earmarking; procurement and suspension and debarment; and subrecipient\* monitoring. We consider this condition to be a material weakness, which resulted in material noncompliance\* for the Program.

Noncompliance with federal program requirements could result in sanctions, disallowances, and/or future reductions in Specialty Crops Program awards.

Our exceptions, by compliance area, are as follows:

#### a. Allowable Costs/Cost Principles

The Department did not consistently obtain documentation adequate to support federally funded payments to subrecipients.

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, requires that, for a cost to be allowable, it needs to be adequately documented. In fiscal years 2002-03 and 2003-04, the Department distributed approximately \$1.3 million (89%) and \$710,000 (77%), respectively, of federal funds to subrecipients for the Specialty Crops Program.

\* See glossary at end of report for definition.

Our review of 50 payments to subrecipients disclosed that 29 (58%) were not adequately documented. As a result, we questioned costs in the amount of \$800,890.

b. Equipment and Real Property Management

The Department did not ensure that subrecipients properly accounted for equipment acquired with federal funds. Title 7, Part 3016, section 32 of the *Code of Federal Regulations (CFR)* includes the following requirements:

- (1) Equipment shall be used by the grantee or subgrantee in the program or project for which it was acquired.
- (2) Procedures for managing equipment shall require maintaining property records; taking a physical inventory; developing a control system to ensure adequate safeguards to prevent loss, damage, or theft of the property; and performing adequate maintenance.
- (3) Equipment shall be properly disposed of when it is no longer needed for federal program activities.

Our review of 10 grant files that included equipment purchased with federal funds disclosed that the subrecipients did not meet these minimum equipment requirements.

c. Matching, Level of Effort, and Earmarking

The Department did not obtain sufficient documentation from subrecipients to support the source of reported matching funds.

Federal regulation 7 *CFR* 3016.24 states that acceptable funds used for matching include allowable costs or contributions incurred by the grantee, subgrantee, or a cost-type contractor under the assistance (grant) agreement. This could include costs that were borne by nonfederal grants or by other cash donations from nonfederal third parties.

Our review of 20 grant files that included matching requirements disclosed a lack of sufficient documentation to support the source of reported matching funds totaling \$50,330 for 10 (50%) of the grants.

d. Procurement and Suspension and Debarment

The Department did not consistently document whether its subrecipients had been suspended or debarred or otherwise excluded from doing business with the federal government for the grant period.

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. As a result of our prior audit, the Department implemented a new procedure during fiscal year 2002-03 that required subrecipients to disclose whether they were on the federal suspension and debarment list.

Our review of 40 grant files disclosed that the Department did not document whether 34 (85%) subrecipients had been suspended or debarred or otherwise excluded from doing business with the federal government for the grant period. Thirty-three (97%) of the 34 subrecipient grants were in effect prior to the Department's implementation of the new procedure. Thus, the Department did not retroactively apply its procedure. The remaining subrecipient grant was in effect after the implementation of the new procedure.

e. Subrecipient Monitoring

The Department did not sufficiently monitor its Specialty Crops Program for compliance with federal laws and regulations and grant agreements.

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, establishes the responsibilities for pass-through entities, including advising subrecipients of the requirements imposed on them and monitoring the activities of subrecipients. The Specialty Crops Program passed through \$709,879 and \$1,335,167 to subrecipients in fiscal years 2003-04 and 2002-03, respectively.

Our review of 40 subrecipient grant agreement files disclosed:

- (1) Although the agreements contained a general statement requiring compliance with federal requirements, 30 (75%) grant agreements did not identify the specific federal requirements for the respective program.

Such identification helps ensure that subrecipients are aware of their obligations under the agreements.

- (2) Although some files contained evidence of subrecipient deliverables, such as the production of brochures and newspaper and magazine articles, there was no evidence that the Department monitored subrecipients through site visits, limited scope audits, or other types of monitoring.

**RECOMMENDATION**

We recommend that the Department enhance its internal control to ensure that the Specialty Crops Program complies with federal laws and regulations regarding allowable costs/cost principles; equipment and real property management; matching, level of effort, and earmarking; procurement and suspension and debarment; and subrecipient monitoring.

**FINDING (790503)**

- 3. Plant and Animal Disease, Pest Control, and Animal Care, CFDA 10.025

U.S. Department of Agriculture	CFDA 10.025: Plant and Animal Disease, Pest Control, and Animal Care
Cooperative Agreement Numbers: 02-8226-0334-CA 03-8226-0349-CA 03-8226-0350-CA 03-8226-0374-CA	Award Periods: 09/25/2002 - 09/25/2003 10/01/2002 - 09/30/2003 10/01/2002 - 09/30/2003 06/09/2003 - 01/31/2005 (extended on 02/01/2005)
	Questioned Costs: \$188,083

The Department's internal control over Plant and Animal Disease, Pest Control, and Animal Care funds did not ensure that the Emerald Ash Borer (EAB) Program complied with federal laws and regulations regarding allowable costs/cost principles and subrecipient monitoring.

Noncompliance with State and federal laws and regulations could result in sanctions, disallowances, and/or future reductions in EAB Program awards.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

Our review disclosed:

- (1) The Department paid overtime for work schedules that did not conform to the contractual provisions of the EAB Program's full-time, limited-term laborers and groundskeepers union contract with the State of Michigan.

OMB Circular A-87 requires that, for a cost to be allowable under federal awards, it must be reasonable for the services rendered and conform to the established policy of the governmental unit consistently applied to both federal and nonfederal activities. The Michigan State Employees Association contract for Labor and Trades and Safety and Regulatory Units states that employees shall only be entitled to overtime compensation for authorized hours worked in excess of 10 hours per workday or 40 hours per workweek.

Our analysis of overtime payments to the EAB Program's full-time, limited-term laborers and groundskeepers disclosed that during the period February through August 2004, 88 employees received overtime payments ranging from \$32.65 to \$552.53. The Department allowed the employees to work four 10-hour days in a workweek. However, because the Department did not properly interpret the employees' contract, it paid the employees time and one-half for time worked in excess of 8 hours in a day. For fiscal year 2003-04, the Department overpaid these employees \$17,470 and did not recoup them as unallowable payments. Thus, we questioned costs of \$17,470.

- (2) The Department did not consistently obtain adequate documentation to support federally funded payments to subrecipients that assisted with various EAB Program activities.

OMB Circular A-87 requires that, for costs to be allowable under federal awards, they need to be adequately documented.

Our review of 11 subrecipient files disclosed that the Department made some payments to subrecipients without obtaining supporting documentation of incurred expenditures in 4 (36%) files. Three (75%) of these 4 files represented one subrecipient for fiscal years 2002-03 and 2003-04. As a result, we questioned costs of \$170,613.

b. Subrecipient Monitoring

The Department did not sufficiently monitor its EAB Program subrecipients for compliance with federal laws and regulations and grant agreement provisions.

OMB Circular A-133 establishes the responsibilities for pass-through entities, including monitoring the activities of subrecipients. The EAB Program passed through \$543,651 and \$104,618 to subrecipients in fiscal years 2003-04 and 2002-03, respectively.

We reviewed 11 grant agreement files. Of the 11 grants, 5 were to one subrecipient that was required to receive a Single Audit. As more fully explained in Finding 4, the Department has not reviewed Single Audits in the manner prescribed by OMB Circular A-133.

The remaining 6 grants were to subrecipients that were not required to receive a Single Audit. In these instances, OMB Circular A-133 imposes other monitoring responsibilities upon the Department, such as site visits, limited scope audits, or other types of monitoring. Although the Department collected various data to ascertain that subrecipients completed work for which they received payments, the Department did not monitor the subrecipients' activities for compliance with federal requirements, such as verifying that subrecipients charged only allowable costs to the grant.

**RECOMMENDATION**

We recommend that the Department improve its internal control over Plant and Animal Disease, Pest Control, and Animal Care funds to ensure that the EAB Program complies with federal laws and regulations regarding allowable costs/cost principles and subrecipient monitoring.

**FINDING (790504)**

4. Subrecipient Monitoring

U.S. Department of Agriculture	<i>CFDA</i> 10.025: Plant and Animal Disease, Pest Control, and Animal Care <i>CFDA</i> 10.156: Federal-State Marketing Improvement Program <i>CFDA</i> 10.450: Crop Insurance <i>CFDA</i> 10.664: Cooperative Forestry Assistance <i>CFDA</i> 10.769: Rural Business Enterprise Grants <i>CFDA</i> 10.UNKNOWN: Specialty Crops
Grant Agreement Numbers: Various	Award Periods: Various
	Questioned Costs: \$0

U.S. Environmental Protection Agency	<i>CFDA</i> 66.460: Nonpoint Source Implementation Grants <i>CFDA</i> 66.605: Performance Partnership Grants <i>CFDA</i> 66.700: Consolidated Pesticide Enforcement Cooperative Agreements <i>CFDA</i> 66.801: Hazardous Waste Management State Program Support
Grant Agreement Numbers: Various	Award Periods: Various
	Questioned Cost: \$0

The Department had not established controls to ensure that it satisfied the pass-through entity responsibilities as established by OMB Circular A-133.

OMB Circular A-133 establishes the responsibilities for State entities that provide federal funds to subrecipients that carry out federal programs. The Department is considered a pass-through entity in these cases.

Our review of the Department's subrecipient monitoring disclosed:

- a. The Department did not consistently inform subrecipients of *CFDA* titles and numbers, award names and numbers, and federal agency names. OMB Circular A-133 requires pass-through entities to identify federal awards by informing each subrecipient of the *CFDA* title and number, award name and number, award year, and name of the federal agency and if the award is for research and development.

- b. The Department did not include all of the federal requirements in its grant agreements with subrecipients. OMB Circular A-133 requires pass-through entities to advise subrecipients of the requirements imposed on them by federal laws and regulations and the provisions of contracts or grant agreements, as well as any supplemental requirements imposed by the pass-through entity. This exception is included in Finding 2.
- c. The Department did not sufficiently monitor subrecipient activities for compliance with federal laws and regulations and grant agreement provisions. OMB Circular A-133 requires pass-through entities to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with federal laws and regulations and the provisions of contracts or grant agreements and that performance goals are achieved. This exception is included in Findings 2 and 3.
- d. The Department did not ensure that its subrecipients met federal audit requirements. OMB Circular A-133 requires pass-through entities to ensure that subrecipients expending \$500,000 or more in federal awards during the subrecipients' fiscal year have met the audit requirements for that fiscal year. Our review of the Department's process for monitoring subrecipient audit reports disclosed:
  - (1) In October 2002, as a result of our prior audit, the Department established a procedure to obtain certification forms from its subrecipient to identify if OMB Circular A-133 audits would be performed. However, 125 (77%) of the Department's 162 subrecipient grant agreements did not contain the certification form or, if the form was not yet implemented, the Department had not conducted other procedures to verify whether an audit was required.
  - (2) Two subrecipients notified the Department that they received A-133 reports, but the Department did not attempt to obtain and review these reports. Additionally, another subrecipient submitted a financial report but did not include the A-133 audit. There was no documentation that the Department followed up by requesting the A-133 audit.

- (3) The Department had not established a process to ensure that compliance requirements were met by 14 for-profit subrecipients. While entities other than state and local governments or nonprofit organizations are not required to obtain A-133 audits, the Department is responsible for ensuring that compliance requirements are met through various methods, such as pre-award audits, continuous monitoring during the contract, and post-award audits.
  
- e. The Department's internal auditor had not conducted final reviews for 3 (75%) of 4 A-133 audit reviews within six months of receipt of such audits. OMB Circular A-133 requires pass-through entities to issue a management decision on audit findings within six months after receipt of a subrecipient's audit report and to ensure that the subrecipient takes appropriate and timely corrective action.

### **RECOMMENDATION**

WE AGAIN RECOMMEND THAT THE DEPARTMENT ESTABLISH CONTROLS TO ENSURE THAT IT SATISFIES THE PASS-THROUGH ENTITY RESPONSIBILITIES AS ESTABLISHED IN OMB CIRCULAR A-133.

**The status of the findings related to 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, 2004

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

Audit Findings That Have Been Fully Corrected:

**Audit Period:** October 1, 2000 through September 30, 2002

**Finding Number:** 790301

**Finding Title:** Controls Over Procurement Cards\*

**Finding:** 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.

**Comments:** As of May 2003, the Department enhanced its internal control through further education in the use of the procurement cards along with increased reviews and reconciliations of card activity.

**Audit Period:** October 1, 2000 through September 30, 2002

**Finding Number:** 790303

**Finding Title:** Cash Management

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

**Comments:** The Department's Accounting Section implemented improvements to bill each federal account on a timely basis beginning in March 2003.

\* See glossary at end of report for definition.

Audit Findings Not Corrected or Partially Corrected:

**Audit Period:** October 1, 2000 through September 30, 2002  
**Finding Number:** 790302  
**Finding Title:** Controls Over Travel Reimbursements

**Finding:** The Department needs to improve controls over employee travel reimbursements.

**Comments:** In February 2004, the Department implemented a procedure for supervisors to conduct post review and signoff on their employees' travel. However, the Department has not strengthened its controls over obtaining documentation from employees terminating employment with the Department. Thus, it has partially complied.

**PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS**

Audit Findings That Have Been Fully Corrected:

**Audit Period:** October 1, 2000 through September 30, 2002  
**Finding Number:** 790304  
**Finding Title:** Personnel-Related Cost Distribution

**Finding:** 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 and the State Grants to Promote Agriculture - Specialty Crops Program were accurate and properly documented in accordance with federal requirements.

**Comments:** In May 2003, the Department's Agriculture Development Division modified its time and attendance reports, which are signed by the employees and approved by their supervisors, to support federal program charges and to account for the employees' total activity. The Department implemented additional procedures and internal

financial policy controls to ensure the prevention of duplicate labor adjustments.

**Audit Period:** October 1, 2000 through September 30, 2002

**Finding Number:** 790305

**Finding Title:** AmeriCorps Eligibility Documentation

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

**Comments:** In June 2003, the Department established procedures to ensure that eligibility is verified and documented prior to paying AmeriCorps participants. The Department's internal audit verified eligibility documentation for program years 2001 through 2003.

**Audit Period:** October 1, 2000 through September 30, 2002

**Finding Number:** 790308

**Finding Title:** Controls Over Procurement Cards

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

**Audit Period:** October 1, 2000 through September 30, 2002

**Finding Number:** 790310

**Finding Title:** Cash Management

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

Audit Findings Not Corrected or Partially Corrected:

**Audit Period:** October 1, 2000 through September 30, 2002

**Finding Number:** 790306

**Finding Title:** Suspension and Debarment Requirements

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

**Comments:** In October 2002, 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. The Department had not subsequently obtained this certification for grants that began prior to the procedures' implementation and were still in existence during the audit period. Thus, the Department has partially complied.

**Audit Period:** October 1, 2000 through September 30, 2002

**Finding Number:** 790307

**Finding Title:** Subrecipient Monitoring

**Finding:** The Department had not established controls to ensure that it satisfied the pass-through entity responsibilities as established by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**Comments:** In October 2002, the Department established procedures that include obtaining certification to identify if an OMB Circular 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. Reportable conditions were noted during the review of subrecipient

monitoring, as referred to in Finding 790504. Therefore, the audit finding has not been corrected.

**Audit Period:** October 1, 2000 through September 30, 2002  
**Finding Number:** 790309  
**Finding Title:** Controls Over Travel Reimbursements

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

DEPARTMENT OF AGRICULTURE

Corrective Action Plan

As of June 8, 2005

**FINDINGS RELATED TO THE FINANCIAL SCHEDULES**

**Finding Number:** 790501  
**Finding Title:** Departed Employee Travel Documentation

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

**Corrective Action:** The Department will enhance internal control by providing additional monitoring to ensure that established controls are working and educate staff in the importance of the existing controls.

**Anticipated Completion Date:** October 2005

**Responsible Individual:** Rick Harper

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**FINDINGS RELATED TO FEDERAL AWARDS**

**Finding Number:** 790502  
**Finding Title:** Specialty Crops, *CFDA* 10.UNKNOWN

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

**Corrective Action:** For items a. and c., the Department will review and verify the documentation to support subrecipient reimbursements and matching costs and provide corrective action for any needed items. For item b., the Department will inform subrecipients with funded equipment of their obligations and monitor compliance. For item d., the Department had verified that none of the subrecipients were on the suspension and

debarment list and enhanced monitoring to ensure that this is accomplished for all future grants. For item e., the Department will enhance its monitoring practices to ensure that subrecipients are in compliance with federal laws and regulations and grant agreements.

**Anticipated Completion Date:** April 2006

**Responsible Individuals:** Robert Craig and Michael DiBernardo

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**Finding Number:** 790503

**Finding Title:** Plant and Animal Disease, Pest Control, and Animal Care, *CFDA* 10.025

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

**Corrective Action:** For item a., the Department will review the documentation to support subrecipient reimbursement costs and provide corrective action for any needed items. For item b., the Department will enhance its monitoring practices to ensure that subrecipients are in compliance with federal laws and regulations and grant agreements.

**Anticipated Completion Date:** October 2005

**Responsible Individual:** Ken Rauscher

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**Finding Number:** 790504

**Finding Title:** Subrecipient Monitoring

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

**Corrective Action:** For item a., the Department will identify federal awards by informing each subrecipient of the *CFDA* title and

number, award name and number, award year, and name of the federal agency and if the award is for research and development. For item b., the Department will improve the information provided to subrecipients in order to ensure that the subrecipients are aware of all federal laws, regulations, contracts, or grant provisions. For item c., the corrective action is included in Findings 790502 and 790503. For item d., the Department will increase monitoring, including establishing a database of subrecipients to monitor audit requirements. The Department will follow up with all subrecipients to ensure that requirements have been met. For item e., the Department will provide timely management decisions for A-133 audit reports received.

**Anticipated Completion Date:** January 2006

**Responsible Individuals:** Michael DiBernardo and David Bruce

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# GLOSSARY

## Glossary of Acronyms and Terms

adverse 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 not fairly presented in conformity with the disclosed basis of accounting;
- b. The financial schedules presenting supplemental financial information are not 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 financial schedules taken by themselves; or
- c. The audited agency did not comply, in all material respects, with the cited requirements that are applicable to each major federal program.

*CFDA*

*Catalog of Federal Domestic Assistance.*

*CFR*

*Code of Federal Regulations.*

DMB

Department of Management and Budget.

EAB

Emerald Ash Borer.

financial audit

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.

internal control	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.
low-risk auditee	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 statutes, this Single Audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.
material misstatement	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 changes in financial position 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 components 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 requirement 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) initiate, record, process, 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.*

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.





