



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



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

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– Article IV, Section 53 of the Michigan Constitution

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Michigan
Office of the Auditor General
REPORT SUMMARY

*Performance Audit
 Clean Michigan Initiative
 Environmental Protection Programs
 Department of Natural Resources and
 Environment*

Report Number:
 761-0217-10

Released:
 December 2010

The Department of Natural Resources and Environment (DNRE) administers environmental protection programs funded by the Clean Michigan Initiative (CMI) bond. These programs include the Brownfield Redevelopment and Environmental Cleanup Program, Waterfront Redevelopment Program, Remediation of Contaminated Lake and River Sediments Program, Nonpoint Source Pollution Prevention and Control Program, Clean Water Fund Program, and Pollution Prevention Program. This performance audit was required by Section 324.19615 of the Michigan Compiled Laws.

Audit Objective:

To assess the effectiveness of DNRE's efforts to ensure compliance with CMI laws and regulations related to allowable funding uses.

Audit Conclusion:

We concluded that DNRE's efforts to ensure compliance with CMI laws and regulations related to allowable funding uses were effective. Our audit report does not include any reportable conditions related to this audit objective.

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Audit Objective:

To assess the effectiveness of DNRE's efforts to establish and evaluate the achievement of program goals for CMI-funded environmental protection programs.

Audit Conclusion:

We concluded that DNRE's efforts to establish and evaluate the achievement of program goals for CMI-funded environmental protection programs were effective. Our audit report does not include any reportable conditions related to this audit objective.

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<p>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</p> 	<p>Michigan Office of the Auditor General 201 N. Washington Square Lansing, Michigan 48913</p> <p>Thomas H. McTavish, C.P.A. Auditor General</p> <p>Scott M. Strong, C.P.A., C.I.A. Deputy Auditor General</p>
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

December 1, 2010

Ms. Rebecca A. Humphries, Director
Department of Natural Resources and Environment
Constitution Hall
Lansing, Michigan

Dear Ms. Humphries:

This is our report on the performance audit of the Clean Michigan Initiative Environmental Protection Programs, administered by the Department of Natural Resources and Environment.

This report is issued pursuant to Section 324.19615 of the *Michigan Compiled Laws*, which states that every two years that State programs are funded with money from Clean Michigan Initiative bond proceeds, the Office of the Auditor General shall conduct a performance audit of the programs. Upon completion of the performance audit, the Office of the Auditor General shall submit a report on the audit to the audited department and the Legislature.

This report contains our report summary; description of programs; audit objectives, scope, and methodology and prior audit follow-up; comments; summary of appropriations and expenditures, presented as supplemental information; and a glossary of acronyms and terms.

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

AUDITOR GENERAL

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Description of Programs

The Clean Michigan Initiative environmental protection programs were initially established under the Department of Environmental Quality (DEQ). Executive Order No. 2009-45 created the Department of Natural Resources and Environment (DNRE), effective January 17, 2010. It transferred all of the authority, powers, duties, functions, responsibilities, records, personnel, property, equipment, and budgetary resources of the Department of Natural Resources (DNR) and DEQ to DNRE by a Type II transfer and abolished DNR and DEQ.

Clean Michigan Initiative (CMI)

In November 1998, Michigan voters approved a \$675 million CMI bond for environmental, natural resources, and health protection programs that would clean up and redevelop contaminated sites; protect and improve water quality; prevent pollution; abate lead contamination; reclaim and revitalize community waterfronts; enhance recreational opportunities; and clean up contaminated sediments in lakes, rivers, and streams. The six environmental protection programs administered by DNRE are the Brownfield* Redevelopment and Environmental Cleanup Program, Waterfront Redevelopment Program, Remediation of Contaminated Lake and River Sediments Program, Nonpoint Source Pollution Prevention and Control Program, Clean Water Fund Program, and Pollution Prevention Program.

DNRE also administers the CMI natural resources protection programs. The Department of Community Health administers the health protection program.

* See glossary at end of report for definition.

Sections 324.19601 - 324.19616 of the *Michigan Compiled Laws* provide for the specific use of CMI bond proceeds as follows:

	<u>Up to</u>
<u>Environmental Protection Programs:</u>	
Response activities* at facilities*	\$335,000,000
Waterfront improvements	50,000,000
Remediation of contaminated lake and river sediments	25,000,000
Nonpoint source pollution prevention and control projects or wellhead protection projects	50,000,000
Water quality monitoring, water resources protection, and pollution control activities	90,000,000
Pollution prevention programs	20,000,000
<u>Natural Resources Protection Programs:</u>	
State park infrastructure improvements	50,000,000
Local recreation projects	50,000,000
<u>Health Protection Program:</u>	
Abatement of lead hazards	5,000,000
	<hr/>
Total	<u><u>\$675,000,000</u></u>

DNRE's environmental protection programs account for \$570 million (84%) of the total \$675 million in CMI bonds. As of September 30, 2009, the State of Michigan had issued nearly \$464 million (81%) in CMI bonds for the environmental protection programs administered by DNRE.

* See glossary at end of report for definition.

DNRE's CMI Programs

DNRE, through its various divisions, administers the following six CMI programs:

1. Brownfield Redevelopment and Environmental Cleanup Program (up to \$335 million): This Program provides funding to four subprograms:
 - **Redevelopment-Based Cleanup Projects (\$155 million)**
This subprogram funds cleanups and/or demolition at sites in order to promote commercial redevelopment, create jobs, and revitalize neighborhoods. This subprogram also can be used to correct leaking underground storage tanks.
 - **Public Health and Environmental Cleanup Projects (\$97 million)**
This subprogram provides State-funded cleanups at contaminated facilities that pose an imminent or substantial endangerment to the public health, safety, or welfare or to the environment.
 - **Brownfield Redevelopment Grants and Loans (\$75 million)**
This subprogram provides grants (\$37.5 million) and loans (\$37.5 million) to local units of government for response activities at known or suspected contaminated properties with redevelopment potential.
 - **Municipal Landfill Cost-Share Grants (\$8 million)**
This subprogram provides grants to local units of government that undertake cleanup actions at municipal solid waste landfills on, or nominated for, the federal Superfund National Priorities List of contaminated sites.
2. Waterfront Redevelopment Program (up to \$50 million): This Program provides grants to local communities for innovative waterfront improvements that contribute significantly to the local unit of government's economy; to the redevelopment or revitalization of neighborhoods; and to increase public access to the Great Lakes, their connecting waterways, a river, or a lake. Eligible activities include environmental response activities, acquisition of waterfront property, relocation and/or demolition of buildings and facilities, and infrastructure and public facility improvements.
3. Remediation of Contaminated Lake and River Sediments Program (up to \$25 million): This Program expands efforts already underway to remove sediments

from lakes and rivers contaminated by toxins, such as polychlorinated biphenyls (PCBs), mercury, and dichlorodiphenyltrichloroethane (DDT).

4. Nonpoint Source Pollution Prevention and Control Program (up to \$50 million): This Program provides grants to nonprofit entities or local units of government to implement physical structures as identified in an approved DNRE watershed management plan to control the runoff of pollutants such as sediment, nutrients, and pesticides into rivers, lakes, and streams. This Program also funds activities to reduce nonpoint source pollution from a specific pollutant source as identified by DNRE, such as the purchase of land or development rights in critical areas of a watershed or fencing and provision of alternative watering systems to eliminate livestock access to lakes or streams.

5. Clean Water Fund Program (up to \$90 million): This Program provides funds to implement a comprehensive water quality monitoring plan to determine water quality trends, evaluate water protection programs, and detect emerging problems. Also, funding is available to implement recommendations in watershed management plans in designated areas of concern or pursuant to lakeside management plans; provide assistance to local units of government to implement the regulations under phase II of the federal Storm Water Permit Program; identify and eliminate illicit connections to storm sewer systems; provide State matching funds required to access a federal grant for the Conservation Reserve Enhancement Program in Michigan; develop a ground water mapping system for the Drinking Water Program; locate and plug abandoned wells; identify and fix failing septic systems that threaten or impair State waters; protect high quality streams and lakes; develop registration and reporting formats for the Water Use and Withdrawal Program; and provide funding to the village of Chesaning to implement a natural river restoration as a solution to a failing dam.

6. Pollution Prevention Program (up to \$20 million): This Program consists of three subprograms:
 - Retired Engineers Technical Assistance Program Fund (\$10 million)
This subprogram creates an endowment to provide funding for pollution prevention assessments by retired engineers and scientists for small businesses, municipalities, and public institutions.

- Small Business Pollution Prevention Assistance Revolving Loan Fund (\$5 million)

This subprogram provides funds to establish a revolving loan fund for small businesses to implement pollution prevention improvements.

- Pollution Prevention Activities (\$5 million)

This subprogram will further pollution prevention activities throughout the State, including start-up funding for local governments to operate household hazardous waste collections; grants to public and private organizations to implement regional pollution prevention projects; establishment of the Green Chemistry Support Program to advance research, development, and implementation of green chemistry technologies and practices; and development of an environmental education curriculum for middle schools.

Audit Objectives, Scope, and Methodology and Prior Audit Follow-Up

Audit Objectives

Our performance audit* of the Clean Michigan Initiative (CMI) Environmental Protection Programs, Department of Natural Resources and Environment (DNRE), had the following objectives:

1. To assess the effectiveness* of DNRE's efforts to ensure compliance with CMI laws and regulations related to allowable funding uses.
2. To assess the effectiveness of DNRE's efforts to establish and evaluate the achievement of program goals* for CMI-funded environmental protection programs.

Audit Scope

Our audit scope was to examine the program and other records of the environmental protection programs of the Clean Michigan Initiative. Not included in the scope of this audit were the natural resources protection programs and the health protection program. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives. Our audit procedures, conducted from May through September 2010, generally covered the period October 1, 2007 through September 30, 2009.

As part of our audit, we prepared a summary of appropriations and expenditures for the CMI environmental protection programs at DNRE. Our audit was not directed toward expressing an opinion on this information and, accordingly, we express no opinion on it.

Audit Methodology

We conducted a preliminary review of DNRE's operations related to CMI to formulate a basis for defining the audit objectives and scope of the audit. Our review included interviewing DNRE personnel; reviewing applicable laws, regulations, policies, procedures, and other reference materials; reviewing selected files, records, and

* See glossary at end of report for definition.

reports; and obtaining an understanding of DNRE's operations as they related to CMI activities.

We used a risk-based approach to select CMI-funded programs. Also, we interviewed DNRE personnel and examined selected CMI files and other information relating to the specific CMI programs and subprograms we selected for review.

We selected the following programs to include within the scope of our audit: the Brownfield Redevelopment and Environmental Cleanup Program; the Nonpoint Source Pollution Prevention and Control Program; and the Water Quality Monitoring Program and the Village of Chesaning Water Pollution Control Grant within the Clean Water Fund Program. We did not include the following programs within the scope of this audit: the Waterfront Redevelopment Program; the Remediation of Contaminated Lake and River Sediments Program; the Remedial Action Plan and Lakeside Management Plans Implementation Grants Program, Voluntary Storm Water Permits Grant Program, Illicit Storm Sewer Connection Grants Program, Conservation Reserve Enhancement Program, Drinking Water Program, Abandoned Well Management Grant Program, Failing On-Site Septic Systems Program, Protecting High Quality Waters Program, and Water Use and Withdrawal Program of the Clean Water Fund Program; and the Pollution Prevention Program. Accordingly, we do not express any conclusions related to these programs.

To accomplish our first objective, we examined DNRE's methods to select projects that are compliant with CMI laws and regulations regarding allowable funding uses. Also, we assessed DNRE's efforts to monitor the grantees' and contractors' compliance with CMI laws and regulations regarding allowable funding uses.

To accomplish our second objective, we assessed whether DNRE had established measurable performance standards* or goals. Also, we evaluated whether DNRE had sufficient procedures to collect actual performance data and compare it to desired results.

Prior Audit Follow-Up

We released our prior performance audit of the Clean Michigan Initiative Environmental Protection Programs, Department of Environmental Quality (761-0217-08), in January 2009. Within the scope of this audit, we followed up on the prior audit recommendation. DNRE complied with the recommendation.

* See glossary at end of report for definition.

COMMENTS

EFFORTS TO ENSURE COMPLIANCE WITH ALLOWABLE FUNDING USES

COMMENT

Audit Objective: To assess the effectiveness of the Department of Natural Resources and Environment's (DNRE's) efforts to ensure compliance with Clean Michigan Initiative (CMI) laws and regulations related to allowable funding uses.

Audit Conclusion: **We concluded that DNRE's efforts to ensure compliance with CMI laws and regulations related to allowable funding uses were effective.** Our audit report does not include any reportable conditions* related to this audit objective.

EFFORTS TO ESTABLISH AND EVALUATE ACHIEVEMENT OF PROGRAM GOALS

COMMENT

Audit Objective: To assess the effectiveness of DNRE's efforts to establish and evaluate the achievement of program goals for CMI-funded environmental protection programs.

Audit Conclusion: **We concluded that DNRE's efforts to establish and evaluate the achievement of program goals for CMI-funded environmental protection programs were effective.** Our audit report does not include any reportable conditions related to this audit objective.

* See glossary at end of report for definition.

SUPPLEMENTAL INFORMATION

CLEAN MICHIGAN INITIATIVE (CMI) ENVIRONMENTAL PROTECTION PROGRAMS
 Department of Natural Resources and Environment (DNRE)

Summary of Appropriations and Expenditures
As of September 30, 2009

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Difference</u>
Brownfield Redevelopment and Environmental Cleanup Program	\$ 311,466,860	\$ 265,317,217	\$ 46,149,643
Waterfront Redevelopment Program	49,999,884	46,556,884	3,443,000
Remediation of Contaminated Lake and River Sediments Program	22,371,354	13,951,551	8,419,803
Nonpoint Source Pollution Prevention and Control Program	33,234,272	27,539,811	5,694,461
Clean Water Fund Program	67,849,649	60,590,867	7,258,782
Pollution Prevention Program	18,623,468	17,808,900	814,568
DEQ Administration	17,087,999	17,087,999	0
Total	<u>\$ 520,633,486</u>	<u>\$ 448,853,229</u>	<u>\$ 71,780,257</u>
 Portion of total CMI bonds allocated for environmental protection programs	 \$ 570,000,000	 \$ 570,000,000	
 Percent appropriated and expended	 91.3%	 78.7%	

Source: Department of Environmental Quality Consolidated Report on the Environmental Protection Bond Fund, the Cleanup and Redevelopment Fund, and the Clean Michigan Initiative Bond Fund, Fiscal Year 2008-09.

GLOSSARY

Glossary of Acronyms and Terms

brownfields	Abandoned, idle, or under-used industrial and commercial properties, often in urban areas, where expansion or redevelopment is hindered or complicated by real or perceived environmental conditions.
CMI	Clean Michigan Initiative.
DEQ	Department of Environmental Quality.
DNR	Department of Natural Resources.
DNRE	Department of Natural Resources and Environment.
effectiveness	Success in achieving mission and goals.
facility	Any area, place, or property where a hazardous substance in excess of the concentrations which satisfy the requirements of Section 324.20120a(1)(a) or Section 324.20120a(17) of the <i>Michigan Compiled Laws</i> or the cleanup criteria for unrestricted residential use has been released, deposited, disposed of, or otherwise comes to be located. "Facility" does not include any area, place, or property at which response activities have been completed which satisfy the cleanup criteria for the residential category provided for in Section 324.20120a(1)(a) and Section 324.20120a(17) of the <i>Michigan Compiled Laws</i> or at which corrective action has been completed under part 213 of the Natural Resources and Environmental Protection Act (Act 451, P.A. 1994, as amended) which satisfies the cleanup criteria for unrestricted residential use.
goal	An intended outcome of a program or an agency to accomplish its mission.

performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve program operations, to facilitate decision making by parties responsible for overseeing or initiating corrective action, and to improve public accountability.
performance standard	A desired level of output or outcome.
reportable condition	A matter that, in the auditor's judgment, falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the objectives of the audit; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.
response activity	The evaluation, interim response activity, remedial action, demolition, or taking of other actions necessary to protect the public health, safety, or welfare; the environment; or the State's natural resources.

