



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 can be accessed at:

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Michigan
Office of the Auditor General
REPORT SUMMARY

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

Report Number:
791-0100-11

Michigan Department of Agriculture

October 1, 2008 through September 30, 2010

Released:
June 2011

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 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 Michigan Department of Agriculture's (MDA's) financial schedules.

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Internal Control Over Financial Reporting

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, we did identify a significant deficiency (Finding 1).

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**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 8 programs as major programs and reported known questioned costs of \$108,612. MDA expended a total of \$17.0 million in federal awards during the two-year period ended September 30, 2010. We issued 8 unqualified opinions. The federal programs audited as major programs are identified on the back of this summary.

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Internal Control Over Major Programs

We did not identify any deficiencies in internal control over federal program compliance that we consider to be material weaknesses. However, we did identify significant deficiencies (Findings 2 through 5).

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Required Reporting of Noncompliance

We identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 (Findings 2 through 5).

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Internal Accounting and Administrative Control System:

Section 18.1489 of the *Michigan Compiled Laws* requires the Auditor General to evaluate the implementation of Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* and report to the Legislature in the financial audit of each department. As a result of Executive Reorganization Order No. 2007-31 (Consolidating Internal Audit Functions), in which responsibility for most of the sections was moved to the Office of Internal Audit Services, Department of Management and Budget, we have evaluated the implementation of only Section 18.1485 in this financial audit. Section 18.1485 requires each department director to

establish an internal accounting and administrative control system, defines the elements of that system, defines the duties of the department director, and provides for certain reports. We determined that MDA was in substantial compliance with Section 18.1485 of the *Michigan Compiled Laws*.

The remaining sections (Sections 18.1483, 18.1484, and 18.1486 - 18.1488 of the *Michigan Compiled Laws*) will be evaluated and reported on in the performance audit of the Office of Internal Audit Services, Department of Technology, Management & Budget.

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We audited the following programs as major programs:

<u>CFDA Number</u>	<u>Program Title</u>	<u>Compliance Opinion</u>
10.025	Plant and Animal Disease, Pest Control, and Animal Care	Unqualified
10.163	Market Protection and Promotion	Unqualified
10.170	Specialty Crop Block Grant Program - Farm Bill	Unqualified
10.479	Food Safety Cooperative Agreements	Unqualified
10.912	Environmental Quality Incentives Program	Unqualified
17.264	National Farmworker Jobs Program	Unqualified
66.605	Performance Partnership Grants	Unqualified
93.103	Food and Drug Administration - Research	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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June 30, 2011

Mr. Donald Coe, Chair
Michigan Commission of Agriculture and Rural Development
and
Mr. Keith Creagh, Director
Michigan Department of Agriculture and Rural Development
Constitution Hall
Lansing, Michigan

Dear Mr. Coe and Mr. Creagh:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Michigan Department of Agriculture (MDA) for the period October 1, 2008 through September 30, 2010.

This report contains our report summary, our independent auditor's report on the financial schedules, and the MDA 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 that could have a direct and material effect on 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 MDA'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 plan to address the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

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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Independent Auditor's Report on the Financial Schedules

Mr. Donald Coe, Chair
Michigan Commission of Agriculture and Rural Development
and
Mr. Keith Creagh, Director
Michigan Department of Agriculture and Rural Development
Constitution Hall
Lansing, Michigan

Dear Mr. Coe and Mr. Creagh:

We have audited the accompanying financial schedules of the Michigan Department of Agriculture for the fiscal years ended September 30, 2010 and September 30, 2009, 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 other financing sources and the sources and disposition of authorizations for the Michigan Department of Agriculture's General Fund 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 other financing sources and the sources and disposition of authorizations of the Michigan Department of Agriculture for the fiscal years ended September 30, 2010 and September 30, 2009 on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2011 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 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

June 24, 2011

MICHIGAN DEPARTMENT OF AGRICULTURE
Schedule of General Fund Revenues and Other Financing Sources
Fiscal Years Ended September 30

	<u>2010</u>	<u>2009</u>
REVENUES		
Taxes (Note 4)	\$ 10,235,298	\$ 13,070,533
From federal agencies	8,651,722	8,802,784
From services	2,552,567	2,449,402
From licenses and permits	12,099,445	11,764,629
Miscellaneous (Note 5)	<u>2,403,606</u>	<u>4,235,822</u>
Total revenues	\$ 35,942,639	\$ 40,323,171
OTHER FINANCING SOURCES		
Transfers from other funds (Note 3)	<u>135,616</u>	<u>5,269,776</u>
Total revenues and other financing sources	<u><u>\$ 36,078,255</u></u>	<u><u>\$ 45,592,947</u></u>

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

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

	<u>2010</u>	<u>2009</u>
SOURCES OF AUTHORIZATIONS (Note 2)		
General purpose appropriations	\$ 29,828,300	\$ 28,546,100
Balances carried forward	5,868,516	5,403,092
Restricted financing sources	36,101,661	45,201,829
Less: Intrafund expenditure reimbursements	<u>(23,923)</u>	<u>(342,520)</u>
 Total	 <u>\$ 71,774,555</u>	 <u>\$ 78,808,501</u>
 DISPOSITION OF AUTHORIZATIONS (Note 2)		
Gross expenditures and transfers out	\$ 64,014,183	\$ 73,272,386
Less: Intrafund expenditure reimbursements	<u>(23,923)</u>	<u>(342,520)</u>
Net expenditures and transfers out	<u>\$ 63,990,260</u>	<u>\$ 72,929,866</u>
Balances carried forward:		
Encumbrances	\$ 363,435	\$ 69,413
Restricted revenues - not authorized or used	<u>7,378,267</u>	<u>5,799,103</u>
Total balances carried forward	<u>\$ 7,741,702</u>	<u>\$ 5,868,516</u>
Balances lapsed	<u>\$ 42,593</u>	<u>\$ 10,118</u>
 Total	 <u>\$ 71,774,555</u>	 <u>\$ 78,808,501</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 Michigan Department of Agriculture (MDA) was created by Act 13, P.A. 1921 (Sections 285.1 - 285.7 of the *Michigan Compiled Laws*). Effective March 13, 2011, Executive Order No. 2011-2 renamed MDA as the Michigan Department of Agriculture and Rural Development (MDARD).

The accompanying financial schedules report the results of the financial transactions of MDA for the fiscal years ended September 30, 2010 and September 30, 2009. The financial transactions of MDA are accounted for 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 MDA. The *SOMCAFR* provides more extensive disclosures regarding the State's significant accounting policies; budgeting, budgetary control, and legal compliance; pension benefits; and other postemployment benefits.

b. Measurement Focus, Basis of Accounting, and Presentation

The financial schedules contained in this report are presented using the current financial resources measurement focus and the modified accrual basis of accounting, as provided by accounting principles generally accepted in the United States of America. 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 other financing sources and the sources and disposition of authorizations for MDA's General Fund accounts. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either MDA or the State's General Fund in conformity with accounting principles generally accepted in the United States of America.

Note 2 Schedule of Sources and Disposition of General Fund Authorizations

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

- a. General purpose appropriations: Original appropriations and any supplemental appropriations that are financed by General Fund/general purpose revenues.
- b. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenues - authorized, and restricted revenues - not authorized or used 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 or used.
- c. Restricted financing sources: Collections of restricted revenues, restricted transfers, and restricted intrafund expenditure reimbursements used 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 or used.
- d. Intrafund expenditure reimbursements: Funding from other General Fund departments to finance a program or a portion of a program that is the responsibility of the receiving department. The use of the expenditure

reimbursements results in the expenditure being reported in the department with the responsibility for the program. Significant intrafund expenditure reimbursements were from the Department of Environmental Quality's Nonpoint Source Implementation Grants (\$0.3 million for fiscal year 2008-09).

- e. Encumbrances: Authorizations carried forward to finance payments for goods or services ordered during the fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general purpose appropriations.
- f. Restricted revenues - not authorized or used: Revenues that, by statute, are restricted for use to a particular program or activity. Generally, the expenditure of the restricted revenues is subject to annual legislative appropriation. Significant carry-forwards of this type were from the gasoline inspection and testing fund (\$1.9 million and \$1.0 million for fiscal years 2009-10 and 2008-09, respectively); equine development fund (\$1.6 million and \$1.3 million for fiscal years 2009-10 and 2008-09, respectively); and freshwater protection fund (\$0.9 million and \$0.7 million for fiscal years 2009-10 and 2008-09, respectively).
- g. 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 Transfers

MDA received transfers from the State Services Fee Fund of \$135,616 in fiscal year 2009-10 and \$5.3 million in fiscal year 2008-09, in accordance with Act 119, P.A. 2009, and Act 253, P.A. 2008, respectively.

Note 4 Tax Revenue

MDA received a casino wagering tax from the three Detroit casinos. This tax was assessed at a rate of 0.5% of the adjusted gross receipts until the casinos became fully operational by opening their permanent establishments. In fiscal year 2008-09, the last of the three casinos became fully operational, which resulted in a decrease in MDA's tax revenue in fiscal year 2009-10 of

\$1.7 million. In addition, MDA's horse race wagering taxes decreased by \$1.3 million in fiscal year 2009-10 as a result of the number of race days decreasing.

Note 5 Miscellaneous Revenue

In fiscal year 2009-10, Executive Order No. 2009-4 abolished the Upper Peninsula State Fair, which resulted in a decrease in MDA's miscellaneous revenue by \$1.0 million in fiscal year 2009-10. All remaining legally mandated duties and functions related to the Fair were transferred to the Department of Technology, Management & Budget.

SUPPLEMENTAL FINANCIAL SCHEDULE

MICHIGAN DEPARTMENT OF AGRICULTURE
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2008 through September 30, 2010

Federal Agency/Program	CFDA (2) Number	For the Fiscal Year Ended September 30, 2009			
		Pass-Through Identification Number	Directly Expended	Distributed to Subrecipient	Total Expended and Distributed
<u>U.S. Department of Agriculture</u>					
Direct Programs:					
Plant and Animal Disease, Pest Control, and Animal Care	10.025		\$ 3,045,128	\$ 38,745	\$ 3,083,873
Conservation Reserve Program	10.069			74,261	74,261
Wetlands Reserve Program	10.072			49,810	49,810
ARRA - Aquaculture Grants Program	10.086				0
Federal-State Marketing Improvement Program	10.156			11,728	11,728
Market Protection and Promotion	10.163		1,832,997		1,832,997
Specialty Crop Block Grant Program	10.169		107,954	7,160	115,114
Specialty Crop Block Grant Program - Farm Bill	10.170		69,563	20,000	89,563
Food Safety Cooperative Agreements	10.479		445,174		445,174
Forest Health Protection	10.680		20,000		20,000
ARRA - Wildland Fire Management	10.688				0
Soil and Water Conservation	10.902			20,533	20,533
Environmental Quality Incentives Program	10.912		44,271	433,547	477,818
Wildlife Habitat Incentive Program	10.914			12,708	12,708
Conservation Security Program	10.921			42,171	42,171
Total Direct Programs			<u>\$ 5,565,087</u>	<u>\$ 710,663</u>	<u>\$ 6,275,750</u>
Pass-Through Programs:					
Gypsy Moth Slow the Spread Foundation, Inc.					
Cooperative Forestry Assistance	10.664	307108, 307109	\$ 45,369	\$	\$ 45,369
Forest Health Protection	10.680				0
Total Pass-Through Programs			<u>\$ 45,369</u>	<u>\$ 0</u>	<u>\$ 45,369</u>
Total U.S. Department of Agriculture			<u>\$ 5,610,456</u>	<u>\$ 710,663</u>	<u>\$ 6,321,119</u>
<u>U.S. Department of Labor</u>					
Direct Program:					
National Farmworker Jobs Program	17.264		\$ 70,255	\$ 315,000	\$ 385,255
Total U.S. Department of Labor			<u>\$ 70,255</u>	<u>\$ 315,000</u>	<u>\$ 385,255</u>
<u>U.S. Environmental Protection Agency</u>					
Direct Programs:					
Performance Partnership Grants	66.605		\$ 610,460	\$ 6,910	\$ 617,370
Consolidated Pesticide Enforcement Cooperative Agreements	66.700		36,626		36,626
Total Direct Programs			<u>\$ 647,086</u>	<u>\$ 6,910</u>	<u>\$ 653,996</u>
Pass-Through Program:					
Michigan Department of Environmental Quality					
Nonpoint Source Implementation Grants	66.460	C9975474-07	\$ 100,000	\$ 252,732	\$ 352,732
Total Pass-Through Program			<u>\$ 100,000</u>	<u>\$ 252,732</u>	<u>\$ 352,732</u>
Total U.S. Environmental Protection Agency			<u>\$ 747,086</u>	<u>\$ 259,642</u>	<u>\$ 1,006,728</u>
<u>U.S. Department of Health and Human Services</u>					
Direct Programs:					
Food and Drug Administration - Research	93.103		\$ 336,212	\$	\$ 336,212
Ruminant Feed Ban Support Project	93.449		218,109		218,109
Total U.S. Department of Health and Human Services			<u>\$ 554,321</u>	<u>\$ 0</u>	<u>\$ 554,321</u>
Total Expenditures of Federal Awards			<u>\$ 6,982,118</u>	<u>\$ 1,285,305</u>	<u>\$ 8,267,423</u>

(1) Basis of Presentation: This schedule presents the federal grant activity of the Michigan Department of Agriculture on the modified accrual basis of accounting and in accordance with the requirements of U.S. Office of Management and Budget (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*.

For the Fiscal Year Ended September 30, 2010				Total Expended and Distributed for the Two-Year Period
Pass-Through Identification Number	Directly Expended	Distributed to Subrecipient	Total Expended and Distributed	
	\$ 3,214,202	\$ 68,613	\$ 3,282,815	\$ 6,366,688
		6,236	6,236	80,497
		16,506	16,506	66,316
		22,298	22,298	22,298
			0	11,728
	1,721,873	69,927	1,791,800	3,624,797
	93,552		93,552	208,666
	136,778	301,088	437,866	527,429
	198,826		198,826	644,000
	3,481		3,481	23,481
	432,979		432,979	432,979
		71,420	71,420	91,953
	15,998	386,695	402,693	880,511
		10,119	10,119	22,827
		5,882	5,882	48,053
	<u>\$ 5,817,689</u>	<u>\$ 958,784</u>	<u>\$ 6,776,473</u>	<u>\$ 13,052,223</u>
307109	\$ 67	\$ 2,141	\$ 2,208	\$ 47,577
307110	16,923		16,923	16,923
	<u>\$ 16,990</u>	<u>\$ 2,141</u>	<u>\$ 19,131</u>	<u>\$ 64,500</u>
	<u>\$ 5,834,679</u>	<u>\$ 960,925</u>	<u>\$ 6,795,604</u>	<u>\$ 13,116,723</u>
	\$ 50,235	\$ 210,000	\$ 260,235	\$ 645,490
	<u>\$ 50,235</u>	<u>\$ 210,000</u>	<u>\$ 260,235</u>	<u>\$ 645,490</u>
	\$ 558,500	\$ 10,000	\$ 568,500	\$ 1,185,870
			0	36,626
	<u>\$ 558,500</u>	<u>\$ 10,000</u>	<u>\$ 568,500</u>	<u>\$ 1,222,496</u>
C9975474-07	\$	\$ 19,155	\$ 19,155	\$ 371,887
	\$ 0	\$ 19,155	\$ 19,155	\$ 371,887
	<u>\$ 558,500</u>	<u>\$ 29,155</u>	<u>\$ 587,655</u>	<u>\$ 1,594,383</u>
	\$ 913,251	\$	\$ 913,251	\$ 1,249,463
	203,853		203,853	421,962
	<u>\$ 1,117,104</u>	<u>\$ 0</u>	<u>\$ 1,117,104</u>	<u>1,671,425</u>
	<u>\$ 7,560,518</u>	<u>\$ 1,200,080</u>	<u>\$ 8,760,598</u>	<u>\$ 17,028,021</u>

INDEPENDENT AUDITOR'S REPORTS ON INTERNAL CONTROL AND COMPLIANCE



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

Mr. Donald Coe, Chair
Michigan Commission of Agriculture and Rural Development
and
Mr. Keith Creagh, Director
Michigan Department of Agriculture and Rural Development
Constitution Hall
Lansing, Michigan

Dear Mr. Coe and Mr. Creagh:

We have audited the financial schedules of the Michigan Department of Agriculture for the fiscal years ended September 30, 2010 and September 30, 2009, as identified in the table of contents, and have issued our report thereon dated June 24, 2011. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined in the preceding paragraph. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs in Finding 1, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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*.

The Department's response to the finding identified in our audit is described in the accompanying corrective action plan. We did not audit the Department's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Governor, the Legislature, the Michigan Commission of Agriculture and Rural Development, management, others within the Department, 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

June 24, 2011



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

Independent Auditor's Report on Compliance With
Requirements That Could Have a Direct and Material Effect on
Each Major Program and on Internal Control Over Compliance in
Accordance With OMB Circular A-133

Mr. Donald Coe, Chair
Michigan Commission of Agriculture and Rural Development
and
Mr. Keith Creagh, Director
Michigan Department of Agriculture and Rural Development
Constitution Hall
Lansing, Michigan

Dear Mr. Coe and Mr. Creagh:

Compliance

We have audited the Michigan Department of Agriculture's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the two-year period ended September 30, 2010. 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 of its major federal programs 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 preceding paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

In our opinion, the Michigan Department of Agriculture complied, in all material respects, with the compliance requirements referred to in the first paragraph that could have a direct and material effect on each of its major federal programs for the two-year period ended September 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which

are described in the accompanying schedule of findings and questioned costs in Findings 2 through 5.

Internal Control Over Compliance

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 the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined in the preceding paragraph. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs in Findings 2 through 5. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Department's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the Department's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Governor, the Legislature, the Michigan Commission of Agriculture and Rural Development, management, others within the Department, 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

June 24, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Schedules

Type of auditor's report issued:	Unqualified*
Internal control* over financial reporting:	
Material weaknesses* identified?	No
Significant deficiencies* identified?	Yes
Noncompliance or other matters material to the financial schedules?	No

Federal Awards

Internal control over major programs:	
Material weaknesses* identified?	No
Significant deficiencies* identified?	Yes
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget* (OMB) Circular A-133, Section 510(a)?	Yes

Identification of major programs:

<u>CFDA* Number</u>	<u>Name of Federal Program</u>
10.025	Plant and Animal Disease, Pest Control, and Animal Care
10.163	Market Protection and Promotion
10.170	Specialty Crop Block Grant Program - Farm Bill
10.479	Food Safety Cooperative Agreements
10.912	Environmental Quality Incentives Program

* See glossary at end of report for definition.

17.264	National Farmworker Jobs Program
66.605	Performance Partnership Grants
93.103	Food and Drug Administration - Research

Dollar threshold used to distinguish between type A and type B programs: \$510,841

Auditee qualified as a low-risk auditee*? No

Section II: Findings Related to the Financial Schedules

FINDING (7911101)

1. Schedule of Expenditures of Federal Awards (SEFA)

The Michigan Department of Agriculture's (MDA's) internal control did not ensure the accurate presentation of expenditures in the SEFA in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, reporting standards.

Section 18.1461 of the *Michigan Compiled Laws* requires MDA to prepare a SEFA, and the State of Michigan Financial Management Guide (FMG) (Part II, Chapter 24, Section 100) provides instructions for preparing MDA's SEFA in accordance with OMB Circular A-133.

Although errors were corrected when brought to MDA's attention for the SEFA presented in this report, our review of MDA's draft SEFA disclosed that MDA had not adequately developed a process to ensure that the total amount provided to subrecipients* for each federal program was accurately identified on the SEFA. OMB Circular A-133, Section 310(b)(5) requires pass-through entities* to identify the total amount provided to subrecipients for each federal program. In response to a similar finding in the prior two audit reports, MDA made significant improvements in its internal control. However, our review disclosed that MDA incorrectly reported amounts directly expended as payments made to subrecipients for the Specialty Crop Block Grant - Farm Bill (*CFDA* 10.170) and for Plant and

* See glossary at end of report for definition.

Animal Disease, Pest Control, and Animal Care (CFDA 10.025). As a result, MDA understated expenditures directly expended and overstated expenditures distributed to subrecipients by \$32,774 for fiscal year 2008-09 and by \$201,948 for fiscal year 2009-10.

RECOMMENDATION

We again recommend that the Michigan Department of Agriculture and Rural Development (MDARD) enhance its internal control to ensure the accurate presentation of expenditures in the SEFA in accordance with OMB Circular A-133 reporting standards.

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

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

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires the auditor to test key controls at a level that would provide sufficient evidence that the established control structure would provide a high probability that material federal program noncompliance would be prevented or detected and corrected. This requires that the auditor set the tolerable exception rate of occurrence at a very low level. During the audit fieldwork, the auditor, in close consultation with the auditee, identifies the key controls that the auditee has established to ensure federal program compliance. In those cases in which the auditor's tests of key controls identify exception rates in excess of the tolerable exception rate of occurrence, the auditor must generally report the observed exception rate in the report finding.

Further, Circular A-133 requires the auditor to report in this section of the audit report known questioned costs that are greater than \$10,000 for a type of compliance requirement for a major program and known questioned costs that are less than \$10,000 for a type of compliance requirement for a major program if it is likely that total questioned costs would exceed \$10,000.

* See glossary at end of report for definition.

As a result of these low required reporting thresholds, the reader may note that, in some cases, the observed exception rates of occurrence and reported known questioned costs appear insignificant in relation to the overall federal expenditures of the auditee. After the audit report is filed with the federal audit clearinghouse, the responsible federal agency is required to issue a management decision within six months of the receipt of the audit report. The management decision may include a request for the return of the known questioned costs.

FINDING (7911102)

2. Market Protection and Promotion, CFDA 10.163

U.S. Department of Agriculture	CFDA 10.163: Market Protection and Promotion
Award Number:	Award Period:
12-25-A-4919	01/01/2008 - 12/31/2008
12-25-A-5047	10/01/2008 - 12/31/2009
12-25-A-5240	10/01/2009 - 12/31/2010
12-25-A-5117	07/01/2009 - 06/30/2010
12-25-A-5031	10/01/2008 - 09/30/2009
12-25-A-5214	10/01/2009 - 09/30/2010
12-25-A-5077	10/01/2008 - 09/30/2009
12-25-A-5267	10/01/2009 - 09/30/2010
12-25-A-5000	09/30/2008 - 09/30/2009
12-25-A-5173	09/30/2009 - 09/30/2010
	Known Questioned Costs: \$66,769

MDA's internal control did not ensure that the Market Protection and Promotion Program complied with federal laws and regulations regarding allowable costs/cost principles.

Noncompliance with federal program requirements could result in sanctions, disallowances, and/or future reductions in Market Protection and Promotion Program awards.

Federal expenditures for the Market Protection and Promotion Program totaled \$3,624,797 for the two-year period ended September 30, 2010. We identified known questioned costs of \$66,769.

Appendix A, sections C.1.a. and C.1.b. of OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (Title 2, Part 225 of the *Code of Federal Regulations** [CFR]), require that costs charged to federal programs be necessary and be allocable to the grant, respectively.

MDA charged unallowable indirect costs to the Market Protection and Promotion Program for 3 (30%) of the 10 grant agreements that we reviewed. These grant agreements provided that only salaries and benefits could be charged to the indirect costs for the Program. However, MDA charged costs other than salaries and benefits to these grants. As a result, we identified known questioned costs of \$66,769.

RECOMMENDATION

We recommend that MDARD improve its internal control to ensure that the Market Protection and Promotion Program complies with federal laws and regulations regarding allowable costs/cost principles.

FINDING (7911103)

3. Environmental Quality Incentives Program, CFDA 10.912

U.S. Department of Agriculture	CFDA 10.912: Environmental Quality Incentives Program
Award Number: 68-3A75-6-109 68-5D21-8-19 68-5D21-10-32	Award Period: 08/10/2006 - 02/10/2010 06/01/2008 - 05/31/2009 06/01/2010 - 05/31/2011
	Known Questioned Costs: \$0

MDA's internal control did not ensure that the Environmental Quality Incentives Program (EQIP) complied with federal laws and regulations regarding subrecipient monitoring.

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

* See glossary at end of report for definition.

Federal expenditures for EQIP totaled \$880,511 for the two-year period ended September 30, 2010. MDA distributed \$433,547 and \$386,695 of the total program expenditures to 18 and 19 subrecipients in fiscal years 2008-09 and 2009-10, respectively.

MDA's internal control did not ensure compliance with the subrecipient monitoring requirement for EQIP in accordance with the pass-through entity responsibilities identified in OMB Circular A-133, Section 400(d). As a result, MDA cannot be assured that federal awards are used for authorized purposes in compliance with laws, regulations, and provisions of contracts or grant agreements.

Our review of 22 grant agreements disclosed that MDA did not provide the *CFDA* title and number in 11 (50%) of the 22 grant agreements. OMB Circular A-133, Section 400(d) requires that the pass-through entity inform the subrecipients of the *CFDA* title and number, the award number, and the name of the federal awarding agency.

RECOMMENDATION

We recommend that MDARD improve its internal control to ensure that EQIP complies with federal laws and regulations regarding subrecipient monitoring.

FINDING (7911104)

4. National Farmworker Jobs Program, *CFDA* 17.264

U.S. Department of Labor	<i>CFDA</i> 17.264: National Farmworker Jobs Program
Award Number: MH-16454-07-60-A-26 MH-16454-07-60-A-26 MH-16454-07-60-A-26	Award Period: 07/01/2008 - 06/30/2009 07/01/2009 - 06/30/2010 07/01/2010 - 06/30/2011
	Known Questioned Costs: \$0

MDA's internal control over the National Farmworker Jobs Program (NFJP) did not ensure compliance regarding subrecipient monitoring as required in OMB Circular A-133, Section 400(d)(3) and federal regulation 29 *CFR* 97.40. As a result, MDA cannot be assured that federal awards are used for authorized purposes in compliance with laws, regulations, and provisions of contracts or grant agreements.

Internal control that does not ensure compliance could result in sanctions, disallowances, and/or future reductions of NFJP awards.

Federal expenditures for NFJP totaled \$645,490 for the two-year period ended September 30, 2010. MDA distributed \$315,000 and \$210,000 of the NFJP expenditures to 21 and 14 subrecipients in fiscal years 2008-09 and 2009-10, respectively.

MDA's subrecipient monitoring process did not include monitoring of subrecipients' labor costs related to the construction of migrant labor housing to ensure compliance with the requirements of the Davis - Bacon Act. The Davis - Bacon Act requires that all laborers and mechanics employed by contractors or subcontractors that work on construction contracts in excess of \$2,000 financed by federal assistance funds be paid prevailing wage rates. The Act also requires that contractors or subcontractors submit to the subrecipient a copy of the certified payroll on a weekly basis. MDA did not monitor the subrecipients to ensure that contractors or subcontractors paid prevailing wages and submitted certified payrolls to the subrecipients.

RECOMMENDATION

We recommend that MDARD improve its internal control to ensure that NFJP complies with federal laws and regulations regarding subrecipient monitoring.

FINDING (7911105)

5. Food and Drug Administration - Research, CFDA 93.103

U.S. Department of Health and Human Services	CFDA 93.103: Food and Drug Administration - Research
Agreement Number: 1U18FD003620-01 5U18FD003620-02 5U18FD003620-03 1U18FD003824-01 5U18FD003824-02 1R13FD003589-01 5R13FD003589-02 5R13FD003589-03	Award Period: 09/20/2008 - 07/31/2009 08/01/2008 - 07/31/2010 08/01/2010 - 07/31/2011 09/18/2009 - 06/30/2010 07/01/2010 - 06/30/2011 09/15/2008 - 07/31/2009 08/01/2009 - 07/31/2010 08/01/2010 - 07/31/2011
	Known Questioned Costs: \$41,843

MDA's internal control did not ensure that the Food and Drug Administration - Research Program complied with federal laws and regulations regarding allowable costs/cost principles.

Noncompliance with federal program requirements could result in sanctions, disallowances, and/or future reductions in Food and Drug Administration - Research Program awards.

Federal expenditures for the Food and Drug Administration - Research Program totaled \$1,249,463 for the two-year period ended September 30, 2010. We identified known questioned costs of \$41,843.

Appendix A, sections C.1.e and C.1.j. of OMB Circular A-87 (federal regulation 2 *CFR* 225) require that costs charged to federal programs be consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities of the governmental unit and be adequately documented, respectively. The FMG (Part IV, Chapter 1, Section 100) states that supervisory review and approval is required for employee time sheets. Second line supervisors may also have access as a backup in case of absence of the first line supervisor.

Our review of payroll expenditures for 42 personnel activity reports processed during the audit period for 1 of 4 employees that we reviewed disclosed that MDA did not have adequate supporting documentation for 12 (29%) of the 42 personnel activity reports. In these instances, the approver both submitted and approved the employee's time entry and the employee did not subsequently authorize the time that was entered on his behalf. As a result, we identified known questioned costs of \$41,843 for the payroll expenditures related to these 12 reports processed for this employee.

RECOMMENDATION

We recommend that MDARD improve its internal control to ensure that the Food and Drug Administration - Research Program complies with federal laws and regulations regarding allowable costs/cost principles.

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

MICHIGAN DEPARTMENT OF AGRICULTURE AND RURAL DEVELOPMENT*

Summary Schedule of Prior Audit Findings

As of June 24, 2011

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2006 through September 30, 2008

Finding Number: 7910901

Finding Title: eWARS General Controls

Finding: The Michigan Department of Agriculture (MDA) and the Michigan Department of Information Technology (MDIT) need to improve information technology general controls over the eWARS system.

Agency Comments: The Michigan Department of Agriculture and Rural Development (MDARD) has completed all of its responsibilities related to this recommendation. The remaining component for completion involves the development of monitoring standards by the Department of Technology, Management & Budget (DTMB) Enterprise Standards Team, which has targeted availability by spring 2011. Once rolled out Statewide, the standards will be implemented after testing by September 30, 2011.

Audit Period: October 1, 2006 through September 30, 2008

Finding Number: 7910902

Finding Title: Procurement of Services

Finding: MDA did not follow State financial and procurement procedures when entering into memorandums of understanding (MOUs) with a nonprofit corporation and when issuing purchase orders to a service provider. In addition, MDA did not sufficiently monitor the activity of the nonprofit corporation or service provider.

Agency Comments: MDARD complied with this recommendation by adhering to Statewide, department, and State Administrative Board procurement procedures. Internal and financial management controls were strengthened, along with proper financial activity reporting. In addition, an MOU protocol is in place per MDA Procedure 45, and it has been reviewed by the Attorney General.

Audit Period: October 1, 2006 through September 30, 2008

Finding Number: 7910904

Finding Title: Supporting Documentation

Finding: MDA's internal control did not ensure that it maintained competitive selection and licensing documentation to support its activities.

Agency Comments: MDARD complied with this recommendation by maintaining supporting file documentation for all proposals and according to the records retention schedule.

Audit Period: October 1, 2006 through September 30, 2008

Finding Number: 7910905

Finding Title: Cash Receipting Process

Finding: MDA's internal control did not ensure proper safeguards related to its cash receipting process.

Agency Comments: MDARD implemented a new cash receipting procedure to ensure proper safeguards related to its cash receipting process. This procedure includes restrictively endorsing checks in a secured area, ensuring the timeliness of deposits by increased monitoring of workloads and backlogs, increasing the focus on depositing cash as close to the date of receipt as possible, and maintaining receipt books.

Audit Period: October 1, 2006 through September 30, 2008
Finding Number: 7910906
Finding Title: Noncompliance with State Statute

Finding: MDA did not have adequate controls to ensure compliance with State statute.

Agency Comments: MDARD revised its procedures related to advances to subrecipients to include a review and approval process for qualification of those locations needing an advance. The procedures also include a yearly letter to DTMB to notify it of MDARD's intent to advance funds.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 2006 through September 30, 2008
Finding Number: 7910903
Finding Title: Schedule of Expenditures of Federal Awards (SEFA)

Finding: MDA did not have effective internal control to ensure the accurate presentation of the SEFA in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 reporting standards.

Agency Comments: MDARD developed a screening tool and work aid to classify relationships, which includes maintaining documentation of the screening results and an exclusion of vendor relationships. MDARD continues to refine the process for the fiscal year 2009-10 SEFA presentation.

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: 790306
Finding Title: Suspension and Debarment Requirements

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

Agency Comments: See comments for Finding 7910705.

Audit Period: October 1, 2004 through September 30, 2006
Finding Number: 7910704
Finding Title: Farm and Ranch Lands Protection Program, *CFDA* 10.913

Finding: The Department's internal control over its use of federal funds did not ensure that the Farm and Ranch Lands Protection Program complied with federal laws and regulations regarding procurement and suspension and debarment and special tests and provisions.

Agency Comments: See comments for Finding 7910910.

Audit Period: October 1, 2004 through September 30, 2006
Finding Number: 7910705
Finding Title: Nonpoint Source Implementation Grants, *CFDA* 66.460

Finding: The Department's internal control did not ensure that the Nonpoint Source Implementation Grants Program complied with federal laws and regulations regarding allowable costs/cost

principles, procurement and suspension and debarment, and subrecipient monitoring.

Agency Comments: See comments for Finding 7910911.

Audit Period: October 1, 2006 through September 30, 2008

Finding Number: 7910907

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

Finding: MDA had not established internal control to ensure that the Plant and Animal Disease, Pest Control, and Animal Care Program complied with federal laws and regulations regarding allowable costs/cost principles.

Agency Comments: See comments for Finding 7910901.

Audit Period: October 1, 2006 through September 30, 2008

Finding Number: 7910908

Finding Title: Conservation Reserve Program, *CFDA* 10.069

Finding: MDA's internal control did not ensure that the Conservation Reserve Program complied with federal laws and regulations regarding allowable costs/cost principles, reporting, and subrecipient monitoring.

Agency Comments: MDARD implemented controls to ensure proper oversight of federal cost principles, reporting, and subrecipient monitoring.

Audit Period: October 1, 2006 through September 30, 2008

Finding Number: 7910909

Finding Title: Specialty Crop Block Grant Program, *CFDA* 10.169

Finding: MDA's internal control did not ensure that the Specialty Crop Block Grant Program complied with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; matching, level of effort, and earmarking; procurement and suspension and debarment; program income; and reporting.

Agency Comments: MDARD improved the communication and grant oversight processes for this program through staffing changes and realignments and implementation of focused processes emphasizing proper purchasing procedures, monitoring of grant status, grant spending plans, federal status reporting requirements, monitoring of subgrantees and vendor relationships, and a reorganized grant documentation filing system.

Audit Period: October 1, 2006 through September 30, 2008

Finding Number: 7910910

Finding Title: Farm and Ranch Lands Protection Program, *CFDA* 10.913

Finding: MDA's internal control did not ensure that the Farm and Ranch Lands Protection Program complied with federal laws and regulations regarding special tests and provisions.

Agency Comments: This finding is no longer applicable because MDARD no longer receives this grant.

Audit Period: October 1, 2006 through September 30, 2008

Finding Number: 7910911

Finding Title: Nonpoint Source Implementation Grants, *CFDA* 66.460

Finding: MDA's internal control did not ensure that the Nonpoint Source Implementation Grants Program complied with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; procurement and suspension and debarment; reporting; and subrecipient monitoring.

Agency Comments: MDARD has implemented the following policies and procedures to ensure compliance with federal laws and regulations:

- a. Activities Allowed or Unallowed. MDARD's internal control now includes a review to ensure that activities were only for the expenditures allowed. Specifically, all grant recipients are notified in writing that activities do not include work with Concentrated Animal Feeding Operations.
- b. Allowable Costs/Cost Principles:
 - (1) Employee's time entries are coded properly for the time spent on grant-related work, and employees working on grant-related activities are identified.
 - (2) General controls over the eWARS system have been reviewed with the MDARD finance liaison.
 - (3) Payroll is now only approved by the program manager, even in the case of annual or sick leave.
- c. Procurement and Suspension and Debarment: The certification form required to document that the subrecipient has not been suspended or debarred or otherwise excluded from doing business with the federal government, etc., is included on all nonpoint source subrecipients' grant agreements.
- d. Reporting: The finding in part d. related to reporting was due to the untimely signing of the MOU received from MDARD's sister agency (the Department of Environmental Quality). In all cases, MDARD signed the MOU within a week of receipt. MDARD will continue to pressure other State agencies to conform to audit findings that also impact MDARD, such as this one.

e. Subrecipient Monitoring:

- (1) MDARD implemented an electronic system that would capture the date received for reports from subrecipients in addition to date-stamping all hard copy reports received. This date was then entered in all summary tables.
- (2) MDARD now provides the *CFDA* title and number, the award name and number, the name of the federal awarding agency, and other associated requirements imposed by law to its subrecipients for nonpoint source grants.
- (3) MDARD requires and verifies inclusion of the single audit certification form from all its subrecipients.
- (4) MDARD has implemented a system whereby all nonpoint source grant quarterly reports of expenditures (referenced as "earmarking requirements" which designate payroll versus indirect costs) are reviewed and corrections and adjustments made before payments are approved.

Audit Period: October 1, 2006 through September 30, 2008
Finding Number: 7910912
Finding Title: Performance Partnership Grants, *CFDA* 66.605

Finding: MDA had not established internal control to ensure that the Performance Partnership Grants Program complied with federal laws and regulations regarding allowable costs/cost principles.

Agency Comments: See comments for Finding 7910901.

Audit Findings Not Corrected or Partially Corrected:

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Agency Comments: See comments for Finding 790504.

Audit Period: October 1, 2002 through September 30, 2004

Finding Number: 790504

Finding Title: Subrecipient Monitoring

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

Agency Comments: MDARD will modify its procedures to ensure that proper federal award information is provided to each grant recipient. MDARD will also monitor subrecipients' compliance with audit requirements.

- * MDA was created by Act 13, P.A. 1921 (Sections 285.1 - 285.7 of the *Michigan Compiled Laws*). Effective March 13, 2011, Executive Order No. 2011-2 renamed MDA as the Michigan Department of Agriculture and Rural Development (MDARD).

MICHIGAN DEPARTMENT OF AGRICULTURE AND RURAL DEVELOPMENT

Corrective Action Plan

As of June 17, 2011

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Finding Number: 7911101
Finding Title: Schedule of Expenditures of Federal Awards (SEFA)

Management Views: The Michigan Department of Agriculture and Rural Development (MDARD) agrees with the finding.

Planned Corrective Action: MDARD and the Accounting Service Center will review and update the process for coding subrecipient and vendor payments made from federal funds as necessary. The Accounting Service Center will also provide guidance to MDARD's divisions regarding the difference between a vendor and a subrecipient and what coding should be used when setting up purchase orders and making payments in the Michigan Administrative Information Network (MAIN) to properly reflect amounts on the SEFA.

Anticipated Completion Date: September 30, 2012

Responsible Individual: Amy Henderson, Accounting Service Center

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 7911102
Finding Title: Market Protection and Promotion, *CFDA* 10.163

Management Views: MDARD agrees that indirect costs were not billed according to the language in the U.S Department of Agriculture grant agreements; however, it does not agree that this resulted in charging unallowable indirect costs to the program.

Planned Corrective Action: The indirect cost language used in three grant agreements was not the correct language and was inconsistent with the language used in all of the other grants that MDARD has with the U.S. Department of Agriculture. While the language indicated that only salaries and benefits could be charged to the indirect costs for the program, the budget for the grant was prepared using total costs. MDARD's indirect cost negotiation agreement was negotiated using total direct costs (minus any capital expenditures, pass-through funds, subcontracts, and other extraordinary items). As soon as this inconsistency in language was brought to the attention of the U.S. Department of Agriculture, it confirmed that the grant agreements did not contain the correct language and affirmed that MDARD will not have any disallowed costs.

Anticipated Completion Date: Complied

Responsible Individual: Amy Henderson, Accounting Service Center

Finding Number: 7911103

Finding Title: Environmental Quality Incentives Program,
CFDA 10.912

Management Views: MDARD agrees with the finding.

Planned Corrective Action: The Division contacts the federal agency to ensure that the Division has the correct *CFDA* program title, number, and grant award number for inclusion on all subrecipient pass-through grants. Draft copies of all subrecipient grants are reviewed by the program manager, budget manager, division director, and Operational Services Division representative to ensure compliance with policy and regulations.

Anticipated Completion Date: Complied

Responsible Individual: Marsha Wiegman, Environmental Stewardship Division

Finding Number: 7911104

Finding Title: National Farmworker Jobs Program, *CFDA* 17.264

Management Views: MDARD agrees with the finding.

Planned Corrective Action: MDARD will:

- (1) Work with the U.S. Department of Labor - Wage and Hour Division to provide prevailing wage information to all subrecipients;
- (2) Require the use of form WH-347 for payroll certification in subrecipient grant agreements;
- (3) Modify subrecipient grant requirements to indicate the failure to pay prevailing wages as grounds for cancelation of subrecipient grants with no payment for accrued expenditures;
- (4) Review weekly payroll certification for payment of prevailing wages during the construction receipt review and payment request authorization process; and

(5) Retain copies of form WH-347 for three years following subrecipient grant payment.

Anticipated Completion Date: September 30, 2012

Responsible Individual: Mark Swartz, Environmental Stewardship Division

Finding Number: 7911105

Finding Title: Food and Drug Administration - Research,
CFDA 93.103

Management Views: MDARD agrees with the finding that the State toxicologist did not enter his payroll directly into the payroll system. MDARD did, however, have adequate controls in place providing overall oversight of grant activity to prevent any disallowed costs.

Planned Corrective Action: The employee will certify his activity related to the federal grant either through direct entry into the payroll system or subsequent authorization. The supervisor will authorize a designated substitute to approve time in the event of the supervisor's absence.

Anticipated Completion Date: Complied

Responsible Individual: Brad Deacon, Executive Office

GLOSSARY

Glossary of Acronyms and Terms

*Catalog of Federal
Domestic Assistance
(CFDA)*

The catalog that provides a full listing, with detailed program descriptions, of all federal programs available to state and local governments.

*Code of Federal
Regulations (CFR)*

The codification of the general and permanent rules published by the departments and agencies of the federal government.

deficiency in internal
control over federal
program compliance

The design or operation of a control over compliance that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

deficiency in internal
control over financial
reporting

The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

DTMB

Department of Technology, Management & Budget.

EQIP

Environmental Quality Incentive Program.

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 presented fairly in all material respects in conformity with the disclosed basis of accounting.

FMG

State of Michigan Financial Management Guide.

internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to 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 statute, 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 changes in financial position or cash flows in conformity with the disclosed basis of accounting.
material noncompliance	Violations of laws, regulations, contracts, and grants that could have a direct and material effect on major federal programs or on financial schedule and/or financial statement amounts.
material weakness in internal control over federal program compliance	A deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.
material weakness in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial schedules and/or financial statements will not be prevented, or detected and corrected, on a timely basis.

MDA	Michigan Department of Agriculture.
MDARD	Michigan Department of Agriculture and Rural Development
MOU	memorandum of understanding.
NFJP	National Farmworker Jobs Program.
pass-through entity	A nonfederal entity that provides a federal award to a subrecipient to carry out a federal program.
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.
SEFA	schedule of expenditures of federal awards.
significant deficiency in internal control over federal program compliance	A deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.
significant deficiency in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 <i>Government Auditing Standards</i> 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.
<i>SOMCAFR</i>	<i>State of Michigan Comprehensive Annual Financial Report.</i>
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: <ul style="list-style-type: none"> 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 and/or financial statements 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 and/or financial statements 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.

U.S. Office of
Management and
Budget (OMB)

A cabinet-level office that assists the President in overseeing the preparation of the federal budget and in supervising its administration in executive branch agencies.

