

**Office of the Auditor General**  
Performance Audit Report

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**Environmental Stewardship Division**  
Michigan Department of Agriculture and Rural Development

April 2015

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State of Michigan Auditor General  
Doug A. Ringler, CPA, CIA

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**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*

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### *Performance Audit*

**Report Number:**  
791-0122-14

### *Environmental Stewardship Division (ESD)*

### *Michigan Department of Agriculture and Rural Development*

**Released:**  
April 2015

ESD's mission is to enhance commercial agricultural activities in Michigan, while protecting the environment and public health. ESD provides assistance to soil and water conservation districts, drain commissions, and land users to enable them to carry out programs that maintain economically viable and environmentally friendly land uses. Also, ESD is responsible for licensing and inspecting migrant labor housing camps. As of April 2014, ESD had 51 employees. For fiscal years 2012 through 2014, ESD had expenditures of \$26.7 million.

Audit Objective			Conclusion
Objective #1: To assess the effectiveness of ESD's efforts to monitor conservation districts' compliance with the terms of technical assistance grant agreements.			Effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
None reported.	Not applicable	Not applicable	Not applicable

Audit Objective			Conclusion
Objective #2: To assess the effectiveness of ESD's efforts to inspect and license migrant labor housing timely and in accordance with administrative rules.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
ESD did not ensure that the Migrant Labor Housing Database contained accurate and complete inspection data to assist ESD with monitoring migrant labor housing inspections ( <u>Finding #1</u> ).		X	Agrees
ESD did not ensure that migrant labor housing violations identified during a previous inspection were corrected prior to issuing a new license ( <u>Finding #2</u> ).		X	Agrees

<b>Audit Objective</b>			<b>Conclusion</b>
Objective #3: To assess the effectiveness of ESD's efforts to ensure the restricted use and development of land in accordance with Farmland and Open Space Preservation Program agreements.			Effective
<b>Observation Related to This Audit Objective</b>	<b>Material Condition</b>	<b>Reportable Condition</b>	<b>Agency Preliminary Response</b>
Limitations exist regarding the monitoring of farmland development rights agreements ( <u>Observation #1</u> ).	Not applicable	Not applicable	Not applicable

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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# OAG

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**Doug A. Ringler, CPA, CIA**  
Auditor General

April 23, 2015

Mr. Trever Meachum, Chair  
Michigan Commission of Agriculture and Rural Development  
and  
Ms. Jamie Clover Adams, Director  
Michigan Department of Agriculture and Rural Development  
Constitution Hall  
Lansing, Michigan

Dear Mr. Meachum and Ms. Clover Adams:

I am pleased to provide this performance audit report on the Environmental Stewardship Division, Michigan Department of Agriculture and Rural Development.

We organized the background, findings, recommendations, and observation by audit objective. Your agency provided preliminary responses to the recommendations at the end of our fieldwork. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and submit it within 60 days of the date above 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.

Sincerely,

A handwritten signature in black ink that reads "Doug Ringler". The signature is written in a cursive, slightly slanted style.

Doug Ringler  
Auditor General



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BACKGROUND, FINDINGS,  
RECOMMENDATIONS, AND  
OBSERVATION

# MONITORING COMPLIANCE WITH TECHNICAL ASSISTANCE GRANT AGREEMENTS

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## **BACKGROUND**

The Environmental Stewardship Division (ESD) provides program direction, oversight, and assistance to Michigan's 78 conservation districts\*. It also administers State and federal grants to the conservation districts for administrative and technical assistance. In fiscal year 2013, ESD awarded grants totaling \$4.6 million to the conservation districts.

## **AUDIT OBJECTIVE**

To assess the effectiveness\* of ESD's efforts to monitor conservation districts' compliance with the terms of technical assistance grant agreements.

## **CONCLUSION**

Effective.

## **FACTORS IMPACTING CONCLUSION**

- No findings related to this audit objective.

\* See glossary at end of report for definition.

# INSPECTING AND LICENSING MIGRANT LABOR HOUSING

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## BACKGROUND

As of January 2014, ESD licensed 760 migrant labor housing camps that housed an estimated 22,000 migrant workers. Migrant labor housing camps are required to be inspected and licensed when five or more migrant workers employed in agriculture, or agricultural related activities, occupy housing on a single tract of land. Licenses are issued for the portion of the year that the agricultural producer anticipates needing migrant labor. ESD has the authority to inspect and license migrant labor housing camps under the Public Health Code (Section 333.12413 of the *Michigan Compiled Laws*).

## AUDIT OBJECTIVE

To assess the effectiveness of ESD's efforts to inspect and license migrant labor housing timely and in accordance with administrative rules.

## CONCLUSION

Moderately effective.

## FACTORS IMPACTING CONCLUSION

- ESD's overall effectiveness in inspecting and licensing migrant labor housing to ensure the safety of migrant workers.
- Reportable conditions\* related to the Migrant Labor Housing Database and migrant labor housing repeat violations.

\* See glossary at end of report for definition.

## FINDING #1

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### Improvements needed to the database to ensure proper monitoring.

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ESD did not ensure that the Migrant Labor Housing Database contained accurate and complete inspection data to assist ESD with monitoring migrant labor housing inspections.

ESD uses the Database to record and process applications, inspections, and licenses for migrant labor housing.

We reviewed inspection and licensing data for 845 migrant labor housing camps recorded in the Database between October 1, 2011 and May 19, 2014. We noted:

- a. Ten camps with a license application in the Database but no associated inspection records.

ESD did not have documentation to confirm that the applications had been withdrawn.

- b. Twelve camps with inspection dates subsequent to the camp occupancy date.

The Public Health Code (Section 333.12413 of the *Michigan Compiled Laws*) requires an inspection prior to the licensing and occupancy of a camp to ensure that it conforms to the minimum health and construction standards.

After we brought this to management's attention, ESD modified the Database to prevent the issuance of a license until ESD received an application and conducted water samples and inspections.

- c. Two camps that housed migrant workers without a license for 51 days and 63 days.

The Public Health Code (Section 333.12411 of the *Michigan Compiled Laws*) states that a person shall not operate a camp without a license.

- d. Two camps that operated under a temporary license for more than 90 days.

The Public Health Code (Section 333.12414 of the *Michigan Compiled Laws*) states that a temporary license may be issued for not more than 3 months pending the results of an inspection or the correction of certain designated items identified during the initial inspection. The two camps operated for 57 days and 79 days beyond the 3-month limit.

ESD informed us that Database control weaknesses and a lack of staff training contributed to the inaccurate data.

**RECOMMENDATION**

We recommend that ESD improve controls to ensure that the Migrant Labor Housing Database contains accurate and complete inspection data.

**AGENCY  
PRELIMINARY  
RESPONSE**

The Michigan Department of Agriculture and Rural Development (MDARD) provided us with the following response:

*ESD concurs with part a. and has implemented procedures to document when a housing provider has withdrawn an application. This happens when weather or market conditions reduce a housing provider's need for migrant labor.*

*ESD concurs with parts b., c., and d. but notes that these 16 errors were associated with 2,779 inspection records for the 845 camps. Both training and database controls have been added to reduce this error rate of one-half of one percent of inspection records.*

## **FINDING #2**

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### **Improvements needed to ensure correction of migrant labor housing violations.**

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ESD did not ensure that migrant labor housing violations identified during a previous inspection were corrected prior to issuing a new license. Timely correction of housing violations helps ESD ensure that migrant labor housing is safe for the workers. Quality living conditions are essential for the health of migrant workers and their families, improve worker productivity, and reduce the risk of foodborne illnesses.

Migrant labor housing camps must be inspected and licensed when five or more workers occupy housing on a single tract of land. ESD inspects and licenses the camps annually. ESD procedures state that inspection violations are not allowed to be carried forward from year to year without being resolved. Camp owners are responsible for correcting any violations; however, ESD does not have authority to issue fines or penalties for rule violations.

Our review of inspection files for 15 randomly selected migrant labor housing camps disclosed 5 instances of repeat violations affecting 4 camps. Examples of the repeat violations include blocked egress windows, uncovered bathroom electrical outlets, and broken kitchen electrical outlets. ESD could have withheld new licenses to help ensure correction of the prior violations.

## **RECOMMENDATION**

We recommend that ESD improve its inspection and licensing process to ensure that migrant labor housing violations identified during a previous inspection are corrected prior to issuing a new license.

## **AGENCY PRELIMINARY RESPONSE**

MDARD provided us with the following response:

*ESD concurs with the finding and has implemented new controls. The method used to track violations has been changed, making it easier to compare inspection results from year to year. Inspectors are now explicitly referencing violations that were not resolved from the previous year and, when observed, not recommending a license. Inspectors have also been directed to use ESD's authority to issue short temporary licenses to ensure that corrective action plans are implemented by the housing owner.*

## **ENSURING THE RESTRICTED USE AND DEVELOPMENT OF LAND**

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### **BACKGROUND**

The Farmland and Open Space Preservation (FOSP) Program\* was enacted in 1974 by Section 324.36104 of the *Michigan Compiled Laws* (Act 451, P.A. 1994) as a voluntary program to help preserve agricultural and open space land through agreements and easements with landowners that restrict the use and development of land. As of January 2014, 19,000 landowners, with a total of 3.25 million acres of land, participated in the FOSP Program.

### **AUDIT OBJECTIVE**

To assess the effectiveness of ESD's efforts to ensure the restricted use and development of land in accordance with FOSP Program agreements.

### **CONCLUSION**

Effective.

### **FACTORS IMPACTING CONCLUSION**

- Observation related to the monitoring of farmland development rights agreements.

\* See glossary at end of report for definition.

## **OBSERVATION #1**

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### **Limitations exist regarding the monitoring of farmland development rights agreements.**

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The FOSP Program's funding mechanism is counterintuitive, given that the State encourages landowner participation in the Program but funding to administer the Program diminishes when participants stay active in the Program.

The FOSP Program preserves agricultural and open space land by providing tax credits to landowners. If landowners leave the FOSP Program, they must repay the tax credits received during the previous seven years. The repaid tax credits serve as funding for ESD to administer the FOSP Program.

However, as the FOSP Program becomes more successful with landowners remaining in the Program, ESD's resources and capacity to administer and monitor the Program decreases because fewer landowners will repay the tax credits.

Landowners enter into farmland development rights agreements to not convert agricultural land to non-agricultural use for a period of time between 10 years and 90 years. The farmland development rights agreements may be extended for a minimum of seven years. The landowner receives tax credits from the State for the amount by which the property tax exceeds 3.5% of the landowner's household income. In addition, the landowner receives an exemption from special assessments for sewer, water, lights, and non-farm drainage. As of October 27, 2014, the Department of Treasury had issued \$38.8 million in farmland tax credits for the 2013 tax year.

If a landowner withdraws or chooses not to extend a farmland development rights agreement, the landowner must repay the tax credits received during the previous seven years. If the landowner does not repay the tax credits, MDARD places a lien on the property for the amount of the tax credits due for repayment. In the past, tax credit repayments generated approximately \$1.3 million a year in funding for the FOSP Program. Beginning in 1996, the Legislature requires MDARD to notify a farmland development rights agreement holder seven years before the agreement expires and indicate the holder's option of not claiming tax credits during all or a portion of the remaining seven years. As a result, many landowners intending to leave the FOSP Program stopped taking advantage of the tax credits so they could exit without repayment. The FOSP Program began seeing decreases in revenues beginning in 2005. Revenues received during the audit period decreased to \$933,000 and \$572,000 in fiscal years 2012 and 2013, respectively.

ESD informed us that as of October 2014, MDARD held approximately \$11.7 million in outstanding liens that will remain on the properties until the lands are sold or a mortgage

is obtained for development on the land. The liens are non-interest bearing, which provides landowners with little incentive to satisfy their debts. ESD informed us that the Legislature amended the FOSP Program in 2011, adding an interest penalty to the liens. However, this incentive will not impact FOSP Program revenues until 2021.

Prior to fiscal year 2014, ESD had 8 staff responsible for administering the FOSP Program. As of October 1, 2013, ESD had only 3 staff responsible for administering the 43,000 farmland development rights agreements. At the current level of funding, ESD does not have sufficient resources to meet legislatively required response times or complete documents needed by landowners to obtain the tax credits for which they are eligible. Wait times for processing documents now exceed 14 months. Agreement holders will have to file amended tax returns once their documents are finalized, resulting in increased work load and costs for both the landowners and the Department of Treasury.

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Lack of funding and legal authority impairs ESD's ability to monitor restricted land.

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ESD's lack of adequate funding and legal authority to access private property impairs its ability to monitor land restricted by a farmland development rights agreement and ensure that land remains undeveloped and preserved for agricultural use. As a result, the FOSP Program has utilized compensating controls, such as title company review at time of sale and cooperation between local units of government and the Department of Treasury, to identify land that is not in compliance with the FOSP Program. MDARD has also requested legislative authorization to strengthen enforcement of the FOSP Program. However, these efforts have not been successful. More reliable funding and legal authority would enable ESD to implement more complete FOSP Program monitoring.

## SUPPLEMENTAL INFORMATION

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### Survey Description

We developed a survey to request input from conservation districts regarding the MDARD Regional Coordinators and ESD's efforts to provide oversight and assistance related to the various ESD grants awarded to the conservation districts.

We mailed the survey to 54 conservation districts that received a grant from ESD during our audit period. We received responses from 35 conservation districts, a response rate of 65%.

The responses indicated that 86% of the respondents were satisfied or very satisfied with the MDARD Regional Coordinators and 83% of the respondents were satisfied or very satisfied with ESD staff.

Following is a summary of the survey results, including the number and percentage of responses received for each question. The total number of responses for each question may not equal the 35 respondents because some respondents did not answer all questions or were not required to answer all questions.

ENVIRONMENTAL STEWARDSHIP DIVISION (ESD)  
Michigan Department of Agriculture and Rural Development (MDARD)

Survey Response Summary

1. Please complete the following information.

	Response	
	Percent	Count
Conservation district	100.0%	35
Survey completed by (name and title)	100.0%	35
Length of time with district	100.0%	35
Date survey completed	100.0%	35
Telephone number	100.0%	35

2. Did an MDARD Regional Coordinator visit your district office during the period October 1, 2011 to the present?

	Response	
	Percent	Count
Yes	100.0%	35
No	0.0%	0

3. Please indicate the average number of site visits per year that you received from the MDARD Regional Coordinator during the audit period.

	Response	
	Percent	Count
One site visit per year	0.0%	0
Two site visits per year	2.9%	1
Three site visits per year	11.4%	4
Four site visits per year	34.3%	12
More than four site visits per year	51.4%	18

4. Please indicate the purpose of the site visits conducted by the MDARD Regional Coordinator. Please select all that apply.

	Response	
	Percent	Count
To assess progress toward meeting grant goals and deliverables	97.1%	34
To conduct quarterly program review related to employee development plan	71.4%	25
To conduct quarterly program review related to annual plan of work	71.4%	25
To conduct training	17.1%	6
To communicate issues or concerns to ESD	62.9%	22
To participate in district board meetings	100.0%	35
To participate in interviews for new staff	60.0%	21
Other (please describe below)	17.1%	6

5. During the site visits, did the MDARD Regional Coordinator review supporting documentation to verify your progress made toward meeting grant deliverable requirements, as reported in your quarterly progress reports submitted to ESD?

	Response	
	Percent	Count
Yes, during every site visit	25.7%	9
Yes, during some site visits	54.3%	19
No, this has not been a common practice.	20.0%	7

6. Why did the MDARD Regional Coordinator not review supporting documentation during site visits?

	Response	
	Percent	Count
Our district did not have the documentation available for review.	0.0%	0
The MDARD Regional Coordinator did not ask to review any supporting documentation.	57.1%	4
Other (please describe below)	42.9%	3

7. How quickly after completion of the site visits did the MDARD Regional Coordinator communicate the review results to you?

	Response	
	Percent	Count
The results were verbally communicated during the site visit.	74.3%	26
Within one week	17.1%	6
Within one month	0.0%	0
After more than one month	0.0%	0
The results were not communicated.	8.6%	3

8. If the MDARD Regional Coordinator identified grant requirements that were at risk of not being met, did the MDARD Regional Coordinator conduct follow-up to ensure that appropriate corrective actions were taken to meet the grant requirements?

	Response	
	Percent	Count
Yes, the MDARD Regional Coordinator conducted follow-up during subsequent quarterly visit(s).	14.3%	5
Yes, the MDARD Regional Coordinator conducted follow-up through other methods of communication (e.g., via the telephone or e-mail).	17.1%	6
No, the MDARD Regional Coordinator did not conduct follow-up.	2.9%	1
Not applicable (i.e., nothing was identified that would require a follow-up visit)	65.7%	23

9. Other than the quarterly site visits conducted to verify your progress made toward meeting grant deliverable requirements, did you have additional communications with your MDARD Regional Coordinator since October 1, 2011?

	Response	
	Percent	Count
Yes	94.3%	33
No	5.7%	2

10. Overall, how satisfied are you with the assistance provided by the MDARD Regional Coordinator?

	Response	
	Percent	Count
Very satisfied	60.0%	21
Satisfied	25.7%	9
Indifferent	8.6%	3
Dissatisfied	2.9%	1
Very dissatisfied	2.9%	1

11. Have you ever contacted ESD staff, other than your MDARD Regional Coordinator, with questions or concerns?

	Response	
	Percent	Count
Yes	74.3%	26
No	25.7%	9

12. How satisfied were you with the assistance provided by ESD staff in response to your questions or concerns?

	Response	
	Percent	Count
Very satisfied	48.6%	17
Satisfied	34.3%	12
Indifferent	11.4%	4
Dissatisfied	2.9%	1
Very dissatisfied	2.9%	1

13. If you have any comments or suggestions regarding how ESD staff and the MDARD Regional Coordinator could give additional assistance, please provide them here.

Response
Count
13

## AGENCY DESCRIPTION

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ESD's mission\* is to enhance commercial agricultural activities in Michigan, while protecting the environment and public health. ESD provides assistance to soil and water conservation districts, drain commissions, and land users to enable them to carry out programs that maintain economically viable and environmentally friendly land uses. Also, ESD is responsible for inspecting and licensing migrant labor housing camps.

ESD administers a variety of programs to encourage the installation and management of sustainable resource protection practices at the local level. These programs include:

a. Conservation Districts

Michigan's conservation districts work to identify local resource needs and develop and implement programs to address those needs. The service area for each district is generally based on county boundary lines; however, some conservation districts serve more than one county. The MDARD Regional Coordinators provide program direction, oversight, and assistance to Michigan's 78 conservation districts. In fiscal year 2013, ESD awarded grants totaling \$4.6 million to the conservation districts. The primary purpose of awarding these grants was to provide funding for the hiring of technical staff, including Michigan Agriculture Environmental Assurance Program (MAEAP) technicians, soil conservationists, professional foresters, and Farm Bill biologists, who provide assistance directly to landowners interested or enrolled in one of the ESD programs.

b. Migrant Labor Housing Program

The Migrant Labor Housing Program is designed to ensure the safety of seasonal housing occupied by five or more migrant agricultural workers by annually conducting inspections and issuing occupancy licenses. Good housing promotes worker health, food safety, and agricultural viability. Prior to issuing a license, the migrant labor housing camps are inspected by ESD to ensure that camp operators meet standards prescribed in the Public Health Code. Without a valid license, the camp operator may be subject to a fine of not more than \$1,000 per day. In-season inspections are also performed to ensure compliance with standards. MDARD inspects and licenses approximately 760 migrant labor housing camps per year. Migrant Labor

\* See glossary at end of report for definition.

Housing Program expenditures for the period October 1, 2011 through March 31, 2014 were \$2.3 million.

c. Farmland and Open Space Preservation (FOSP) Program

The FOSP Program is intended to preserve agricultural and open space land by entering into agreements and easements with landowners to restrict the use and development of land. In exchange, the State of Michigan offers the landowner the opportunity to claim a tax credit as well as exemptions from special assessments for sewer, water, lights, and non-farm drainage. The FOSP Program processes new applications, extensions, or terminations of farmland development rights agreements and transfers of land to new owners. The farmland development rights agreements restrict land use for 10 years to 90 years, and extensions may be approved for seven or more years. Termination of the agreements requires landowners to repay tax credits received in the last seven years. FOSP Program expenditures for the period October 1, 2011 through March 31, 2014 were \$2.1 million.

As of April 2014, ESD had 51 employees. For fiscal years 2012 through 2014, ESD had expenditures of \$26.7 million.

## AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

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### AUDIT SCOPE

Our audit scope was to examine the program and other records related to the Environmental Stewardship Division. 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered the period October 1, 2011 through June 30, 2014.

### METHODOLOGY

We conducted a preliminary survey of ESD to establish our audit objectives. We interviewed ESD personnel, conducted tests of program records, and conducted various ESD database queries. We also reviewed applicable laws, administrative rules, and policies and procedures. We used the results of our preliminary survey to determine the extent of our detailed analysis and testing.

### OBJECTIVE #1

To assess the effectiveness of ESD's efforts to monitor conservation districts' compliance with the terms of technical assistance grant agreements.

To accomplish our first objective, we:

- Interviewed ESD management to obtain an understanding of the process for granting and monitoring ESD funds awarded to the conservation districts.
- Reviewed ESD technical assistance grant agreements with the conservation districts and grant deliverables to identify responsibilities of the MDARD Regional Coordinators.
- Surveyed 54 conservation districts to obtain information and feedback regarding the oversight and assistance provided by ESD to the conservation districts.
- Reviewed 12 judgmentally selected technical assistance grants associated with 5 of the 46 conservation districts that received a grant in fiscal year 2013 to assess grantee compliance with documentation requirements imposed by

\* See glossary at end of report for definition.

the grant agreements. Because we judgmentally selected the items to test, our testing results may not apply proportionally to the entire population.

## **OBJECTIVE #2**

To assess the effectiveness of ESD's efforts to inspect and license migrant labor housing timely and in accordance with administrative rules.

To accomplish our second objective, we:

- Interviewed ESD management to obtain an understanding of the process to inspect and license migrant labor housing camps.
- Analyzed data in the Migrant Labor Housing Database to determine whether ESD conducted inspections of all active camps, that camps were inspected and licensed prior to the camps being occupied, and that temporary licenses were not issued for more than 90 days.
- Reviewed inspection files for 15 randomly selected camps to determine if violations noted in inspection reports were repeated from one license year to the next and to determine if camp files maintained by the field inspectors and the MDARD Lansing office were complete. Our results were not projected to the remaining population.

## **OBJECTIVE #3**

To assess the effectiveness of ESD's efforts to ensure the restricted use and development of land in accordance with FOSP Program agreements.

To accomplish our third objective, we:

- Obtained an understanding of the FOSP Program through review of Program documentation, meetings with the FOSP Program manager, and review of Act 451, P.A. 1994.
- Reviewed an example of each type of farmland development rights agreement to evaluate landowner and ESD requirements.
- Evaluated monitoring efforts of ESD for farmland development rights agreements.
- Identified the FOSP Program tax credits claimed by landowners for the 2012 and 2013 tax years.

## **CONCLUSIONS**

We based our conclusions on our audit efforts as described in the preceding paragraphs and the resulting reportable conditions noted in the background, findings, recommendations, and observation section. The reportable conditions are less severe than a material condition\* but represent opportunities for improvement.

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve the operations of State government. Consequently, we prepare our performance audit reports on an exception basis.

## **AGENCY RESPONSES**

Our audit report includes 2 findings and 2 corresponding recommendations. MDARD's preliminary response indicates that it agrees with the recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion at the end of our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require an audited agency to develop a plan to comply with the 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 released our prior performance audit of the Environmental Stewardship Division, Department of Agriculture (79-122-05), in March 2006. MDARD complied with the one prior audit recommendation.

## **SUPPLEMENTAL INFORMATION**

As part of our audit, we prepared supplemental information that relates to our audit objectives. Our audit was not directed toward expressing a conclusion on this information.

\* See glossary at end of report for definition.

## **GLOSSARY OF ABBREVIATIONS AND TERMS**

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conservation districts	Local providers of natural resource management services that help citizens conserve their lands and the environment. ESD works with conservation districts to deliver soil, water, and energy conservation programs directly to landowners.
effectiveness	Success in achieving mission and goals.
ESD	Environmental Stewardship Division.
Farmland and Open Space Preservation (FOSP) Program	A program that preserves agricultural and open space land to provide for current and future needs of citizens of the State.
material condition	A matter that, in the auditor's judgment, is more severe than a reportable condition and could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
MDARD	Michigan Department of Agriculture and Rural Development.
mission	The main purpose of a program or an entity or the reason that the program or the entity was established.
performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.
reportable condition	A matter that, in the auditor's judgment, is less severe than a material condition and 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 audit objectives; 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.







