

FINANCIAL AUDIT
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT
OF THE
DEPARTMENT OF ENVIRONMENTAL QUALITY

October 1, 1995 through September 30, 1997

EXECUTIVE DIGEST

DEPARTMENT OF ENVIRONMENTAL QUALITY

INTRODUCTION

This report contains the results of our financial audit*, including the provisions of the Single Audit Act, of the Department of Environmental Quality (DEQ) for the period October 1, 1995 through September 30, 1997.

AUDIT PURPOSE

This financial audit of DEQ was conducted as part of the constitutional responsibility of the Office of the Auditor General and is required on a biennial basis by Act 251, P.A. 1986, to satisfy the requirements of the Single Audit Act of 1984 and federal Office of Management and Budget Circular A-128, *Audits of State and Local Governments*.

BACKGROUND

DEQ's mission* is to drive improvements in environmental quality for the protection of public health and natural resources to benefit current and future generations. This will be accomplished through effective administration of agency programs, providing for the use of innovative strategies, while helping to foster a strong and sustainable economy.

On August 1, 1995, the Governor issued Executive Order 1995-18, which divided the Department of Natural Resources (DNR) into two departments and created DEQ as a separate department composed of environmental protection and regulatory programs. Executive Order

* See glossary at end of report for definition.

1995-18 took effect on October 1, 1995, but the two departments continued to share certain central administrative functions, including accounting and federal grant reporting. These shared functions remained at DNR until December 19, 1996.

Other Executive Orders impacting DEQ during our audit period included: Executive Order 1996-1, which transferred certain environmental health programs to DEQ from the Department of Public Health (now known as the Department of Community Health); Executive Order 1996-2, which transferred the Low-Level Radioactive Waste Authority to DEQ from the Department of Commerce (now known as the Department of Consumer and Industry Services); and Executive Order 1997-3, which transferred the Environmental Administration Division to DEQ from the Department of Management and Budget.

DEQ's financial and administrative functions are concentrated under the operations area. DEQ's environmental program areas participate in managing federal grants.

DEQ's general operations are accounted for in the State's General Fund. DEQ administers environment related special revenue funds and an agency fund. As of September 30, 1997, DEQ had 1,368 full-time and 71 part-time employees, and its General Fund expenditures and operating transfers out and special revenue fund expenditures were approximately \$201.9 million for fiscal year 1996-97.

AUDIT OBJECTIVES
AND CONCLUSIONS

Audit Objective: To assess the adequacy of DEQ's internal control structure*, including applicable administrative controls related to the management of federal financial assistance programs.

Conclusion: Our assessment of DEQ's internal control structure disclosed reportable conditions* related to separation of duties in the Drinking Water and Radiological Protection Division, the Personnel-Payroll Information System for Michigan daily transaction control log, and separation of duties in payroll functions (Findings 1 through 3).

In addition, our assessment indicated that DEQ was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.

Audit Objective: To assess DEQ's compliance with both State and federal laws and regulations that could have a material effect on DEQ's financial statements, its financial schedules, or any of its major federal financial assistance programs.

Conclusion: Our assessment of compliance with laws and regulations did not disclose any instances of noncompliance that could have a material effect on DEQ's financial statements or its financial schedules. However, our assessment did disclose material noncompliance* with

* See glossary at end of report for definition.

federal laws and regulations pertaining to one of DEQ's major federal financial assistance programs:

- Single Audit reports from subrecipient municipalities did not identify disbursements that the municipalities received from the State Revolving Fund* as federal financial assistance on their schedules of federal financial assistance (Finding 4).

DEQ disagrees with this finding.

In addition, our assessment disclosed reportable conditions related to subrecipient monitoring, federal grant payroll cost allocation, terminal leave payments* allocated to federal grants, the federal indirect cost rate, and the establishment of the Drinking Water Revolving Fund* (Findings 5 through 9).

Audit Objective: To audit DEQ's financial statements and schedules for the fiscal years ended September 30, 1997 and September 30, 1996.

Conclusion: We expressed an unqualified opinion on DEQ's financial statements and schedules. However, our audit disclosed reportable conditions related to the Bottle Deposits Fund spending authority and accounts payable estimation (Findings 10 and 11).

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Department of Environmental Quality for the period October 1, 1995 through September 30, 1997. Our audit was conducted in accordance with generally accepted auditing standards and *Government Auditing*

* See glossary at end of report for definition.

Standards issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our audit objective for the assessment of the internal control structure included an evaluation of DEQ's implementation of the requirements for establishing and maintaining systems of internal accounting and administrative control, as set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws*.

AGENCY RESPONSES
AND PRIOR AUDIT
FOLLOW-UP

Our audit report includes 11 findings and recommendations. DEQ agrees in full with 8 findings, agrees in part and disagrees in part with 2 findings, and disagrees with 1 finding.

DEQ had complied with both of the prior DNR audit recommendations related to DEQ's programs that were included within the scope of our current audit.

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Mr. Russell J. Harding, Director
Department of Environmental Quality
Hollister Building
Lansing, Michigan

Dear Mr. Harding:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Environmental Quality for the period October 1, 1995 through September 30, 1997.

This report contains our executive digest; description of agency; audit objectives, audit scope, and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; and independent auditor's reports on the internal control structure, on compliance with laws and regulations, on the financial statements, and on the financial schedules. This report also contains the Department of Environmental Quality's financial statements and schedules and notes to financial statements and schedules; supplemental financial statements and schedules; a schedule of questioned costs and a schedule of immaterial noncompliance, presented as supplemental information; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

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

AUDITOR GENERAL

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TABLE OF CONTENTS

DEPARTMENT OF ENVIRONMENTAL QUALITY

INTRODUCTION

	<u>Page</u>
Executive Digest	1
Report Letter	7
Description of Agency	11
Audit Objectives, Audit Scope, and Agency Responses and Prior Audit Follow-Up	13

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

Internal Control Structure	15
1. DWRPD Separation of Duties	15
2. PPRISM Daily Transaction Control Log	17
3. Payroll Function Separation of Duties	17
Compliance With Laws and Regulations	18
4. SRF Subrecipient Designation	19
5. Subrecipient Monitoring	21
6. Federal Grant Payroll Cost Allocation	24
7. Terminal Leave Payments Allocated to Federal Grants	25
8. Federal Indirect Cost Rate	26
9. Establishment of the Drinking Water Revolving Fund	27
Financial Accounting and Reporting	28
10. Bottle Deposits Fund Spending Authority	29
11. Accounts Payable Estimation	30

INDEPENDENT AUDITOR'S REPORTS, FINANCIAL STATEMENTS,
AND FINANCIAL SCHEDULES

Independent Auditor's Report on the Internal Control Structure	32
Independent Auditor's Report on Compliance With Laws and Regulations	36
Independent Auditor's Report on the Financial Statements	39
Independent Auditor's Report on the Financial Schedules	41
Department of Environmental Quality's Financial Statements and Schedules	
Descriptions of Special Revenue Funds	43
Description of Agency Fund	45
Combined Balance Sheet	46
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances	47
Schedule of General Fund Revenues and Operating Transfers	48
Schedule of General Fund Sources and Disposition of Authorizations	49
Notes to Financial Statements and Financial Schedules	50

SUPPLEMENTAL FINANCIAL STATEMENTS AND SCHEDULES

Combining Balance Sheet - Special Revenue Funds	60
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Special Revenue Funds	62
Statement of Changes in Assets and Liabilities - Environmental Quality Deposits Fund	64
Schedule of Federal Financial Assistance	66

SUPPLEMENTAL INFORMATION

Schedule of Questioned Costs	79
Schedule of Immaterial Noncompliance	81

GLOSSARY

Glossary of Acronyms and Terms	82
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Description of Agency

The Department of Environmental Quality's (DEQ's) mission is to drive improvements in environmental quality for the protection of public health and natural resources to benefit current and future generations. This will be accomplished through effective administration of agency programs, providing for the use of innovative strategies, while helping to foster a strong and sustainable economy.

On August 1, 1995, the Governor issued Executive Order 1995-18, which divided the Department of Natural Resources (DNR) into two departments: DNR and DEQ. Executive Order 1995-18 took effect on October 1, 1995, and transferred all the statutory authority, powers, duties, functions, and responsibilities of the following areas from DNR to DEQ:

Air Quality	Environmental Response
Environmental Assistance	Surface Water Quality
Underground Storage Tank	Waste Management
Portions of Land and Water Management	Portions of Geological Survey

These areas represent 8 of the 9 divisions that currently comprise the environmental program areas at DEQ. Other functions transferred from DNR under this Executive Order included the Office of Administrative Hearings, Office of the Great Lakes, Environmental Investigations Unit of the Law Enforcement Division, coordination of environmental education, and Environmental Education Advisory Committee.

Under this Executive Order, DEQ became responsible for environmental protection and regulation and DNR remained responsible for resource management. Some administrative functions, such as internal audit, human resources, and budget, were split effective October 1, 1995 between DEQ and DNR. Other administrative functions, such as accounting and federal grant reporting, remained with DNR. On December 19, 1996, all remaining administrative functions, except for automation services, were split between the respective departments.

Certain environmental health programs were transferred to DEQ from the Bureau of Environmental and Occupational Health, Department of Public Health (now known as

the Department of Community Health), through Executive Order 1996-1. These programs became the ninth environmental program area at DEQ, known as the Drinking Water and Radiological Protection Division. Furthermore, Executive Order 1996-2 transferred the Low-Level Radioactive Waste Authority from the Department of Commerce (now known as the Department of Consumer and Industry Services) to DEQ, and Executive Order 1997-3 transferred the Environmental Administration Division from the Department of Management and Budget to DEQ.

DEQ's environmental program areas participate in managing federal grants, including applying for grants, approving expenditures, and monitoring compliance with grant program requirements. Each program area is headed by a division chief who reports directly to the DEQ director. Under the program areas, district and other field offices are located Statewide.

DEQ's financial and administrative operations are concentrated under the operations area. Various administrative and general support functions, such as internal audit, personnel, budget, accounting, federal grant reporting, procurement, automation coordination, field operations coordination, and special environmental projects, are conducted under this area.

DEQ's general operations are accounted for in the State's General Fund. DEQ administers environment related special revenue funds and an agency fund. As of September 30, 1997, DEQ had 1,368 full-time and 71 part-time employees, and its General Fund expenditures and operating transfers out and special revenue fund expenditures were approximately \$201.9 million for fiscal year 1996-97.

Audit Objectives, Audit Scope, and Agency Responses and Prior Audit Follow-Up

Audit Objectives

Our financial audit, including the provisions of the Single Audit Act, of the Department of Environmental Quality (DEQ) had the following objectives:

1. To assess the adequacy of DEQ's internal control structure, including applicable administrative controls related to the management of federal financial assistance programs.
2. To assess DEQ's compliance with both State and federal laws and regulations that could have a material effect on DEQ's financial statements, its financial schedules, or any of its major federal financial assistance programs.
3. To audit DEQ's financial statements and schedules for the fiscal years ended September 30, 1997 and September 30, 1996.

Our audit objective for the assessment of the internal control structure included an evaluation of DEQ's implementation of the requirements for establishing and maintaining systems of internal accounting and administrative control, as set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws*.

Audit Scope

Our audit scope was to examine the financial and other records of the Department of Environmental Quality for the period October 1, 1995 through September 30, 1997. Our audit was conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

We considered DEQ's internal control structure policies and procedures for its federal financial assistance programs and assessed DEQ's compliance with federal laws and regulations in accordance with the Single Audit Act of 1984 and federal Office of Management and Budget Circular A-128, *Audits of State and Local Governments*, in

addition to generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. In addition, we followed up on prior Department of Natural Resources (DNR) audit findings related to DEQ's programs and questioned costs* and DEQ's corrective action plan. DEQ's major programs are identified on the schedule of federal financial assistance.

Agency Responses and Prior Audit Follow-Up

Our audit report includes 11 findings and recommendations. DEQ agrees in full with 8 findings, agrees in part and disagrees in part with 2 findings, and disagrees with 1 finding.

The agency preliminary response which follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require DEQ to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

In addition, the Single Audit Act of 1984 requires DEQ to prepare and submit to its federal cognizant agency and applicable grantor agencies a plan for corrective action.

DEQ had complied with both of the prior DNR audit recommendations related to DEQ's programs that were included within the scope of our current audit.

* See glossary at end of report for definition.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

INTERNAL CONTROL STRUCTURE

COMMENT

Audit Objective: To assess the adequacy of the Department of Environmental Quality's (DEQ's) internal control structure, including applicable administrative controls related to the management of federal financial assistance programs.

Conclusion: Our assessment of DEQ's internal control structure disclosed reportable conditions related to separation of duties in the Drinking Water and Radiological Protection Division (DWRPD), the Personnel-Payroll Information System for Michigan (PPRISM) daily transaction control log, and separation of duties in payroll functions.

In addition, our assessment indicated that DEQ was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.

FINDING

1. DWRPD Separation of Duties

DWRPD did not separate its cash receipting and accounts receivable recording functions or have a system of controls to compensate for the lack of separation of duties within DWRPD.

The Management and Budget Act (Act 431, P.A. 1984) states that each internal accounting and administrative control system shall include a plan of organization that provides for a separation of duties and responsibilities among employees.

Our assessment of internal controls disclosed that one employee in DWRPD recorded the receivable for water analysis fees, collected the cash, and entered the amount received on a receivable system within DWRPD. Although DWRPD maintained a separate water analysis test log, there was no reconciliation between this log and the receivable system. Also, DWRPD did not reconcile its internal

accounts receivable system with the cash receipts recorded on the Michigan Administrative Information Network.

DWRPD received approximately \$1.0 million in revenue during fiscal year 1996-97.

Sound internal controls require that the same employee should not perform the cash receipting function and also enter the accounting transactions for these cash receipts.

RECOMMENDATION

We recommend that DWRPD separate its cash receipting and accounts receivable recording functions or design a system of controls to compensate for the lack of separation of duties within DWRPD.

AGENCY PRELIMINARY RESPONSE

DEQ agrees with this finding and informed us that it has taken steps to separate its cash receipting and accounts receivable recording functions in DWRPD. By June 30, 1999, the necessary data system modifications should be complete and all cash received in the laboratory for prepaid water testing will be restrictively endorsed, posted to the internal accounts receivable system, receipted via preparation of a cash log (two employees involved, both running a tape), and transmitted directly to the DEQ Revenue Office. All cash received in DWRPD's Administration Section from a mailed invoice will be opened, restrictively endorsed by one section employee, and posted to the accounts receivable system by a second employee. Two employees have been hired for this purpose and began work on June 14, 1999. Invoices for water testing will be generated by one employee in the Administration Section and reviewed by a second employee prior to being mailed. By July 30, 1999, DWRPD will implement a procedure to reconcile its cash log transmittals to the DEQ Revenue Office with revenue deposits in the Michigan Administrative Information Network (MAIN). DWRPD will develop and implement a method to reconcile its internal accounts receivable system with the cash receipts recorded in MAIN.

FINDING

2. PPRISM Daily Transaction Control Log

DEQ did not prepare daily transaction control logs of transactions entered into PPRISM.

To help ensure that transactions were properly entered and to disclose any unauthorized transactions, PPRISM Procedures Manual section 2.3 requires agencies to complete a daily transaction control log of transactions entered into PPRISM and then reconcile the number of transactions entered with the daily transaction control count.

DEQ failed to implement procedures to ensure that the daily transaction control logs were prepared and reconciled with the daily transaction control count. Without proper procedures, DEQ lacked assurance that payroll transactions entered into PPRISM were properly authorized and recorded.

RECOMMENDATION

We recommend that DEQ prepare daily transaction control logs of transactions entered into PPRISM.

AGENCY PRELIMINARY RESPONSE

DEQ agrees that, at the time the audit was performed, the control log was not generated or transactions reconciled to it. DEQ informed us that, as of August 1998, the Office of Personnel implemented a process where the supervisor of the Office generates the daily control logs and reconciles the number of transactions to the log.

FINDING

3. Payroll Function Separation of Duties

DEQ did not separate PPRISM duties between the transaction operators and the agency master operator.

PPRISM Procedures Manual section 2.1 states that only the agency master operator should have the capacity to establish a new operator, inactivate an

operator, or change operator capabilities. PPRISM transaction operators had both transaction input capabilities and the ability to establish or change operator capabilities.

DEQ allowed three transaction operators to have the capability to establish a new operator, inactivate an operator, or change an operator's capability. As a result, DEQ lacked the assurance that only authorized individuals had access to PPRISM.

RECOMMENDATION

We recommend that DEQ separate PPRISM duties between the transaction operators and agency master operator.

AGENCY PRELIMINARY RESPONSE

DEQ agrees that transaction operators have been given access to the PPRISM PSWU* code. However, they only use it to give passwords to those operators already established in the system. Only the DEQ master operator establishes new users and inactivates them in the system. Even though the transaction operators have the ability to establish or change operator capabilities, DEQ uses compensating controls to monitor activity. The CNTL* code was implemented in August 1998 and is now used daily to review the instances of PSWU code use, and the State of Michigan PPRISM Valid Operators Report (CR-185) is monitored to review current users and their status.

COMPLIANCE WITH LAWS AND REGULATIONS

COMMENT

Audit Objective: To assess DEQ's compliance with both State and federal laws and regulations that could have a material effect on DEQ's financial statements, its financial schedules, or any of its major federal financial assistance programs.

Conclusion: Our assessment of compliance with laws and regulations did not disclose any instances of noncompliance that could have a material effect on DEQ's financial

* See glossary at end of report for definition.

statements or its financial schedules. However, our assessment did disclose material noncompliance with federal laws and regulations pertaining to one of DEQ's major federal financial assistance programs. Single Audit reports from subrecipient municipalities did not identify disbursements that the municipalities received from the State Revolving Fund (SRF) as federal financial assistance on their schedules of federal financial assistance.

In addition, our assessment disclosed reportable conditions related to subrecipient monitoring, federal grant payroll cost allocation, terminal leave payments allocated to federal grants, the federal indirect cost rate, and the establishment of the Drinking Water Revolving Fund.

FINDING

4. SRF Subrecipient Designation

Single Audit reports from subrecipient municipalities did not identify disbursements that the municipalities received from SRF as federal financial assistance on their schedules of federal financial assistance. This indicates that the municipalities' use of SRF money was not subject to audit testing for compliance with applicable federal program laws and regulations.

DEQ and the Michigan Municipal Bond Authority (MMBA), Department of Treasury, administer the SRF Program* , with DEQ as the direct recipient of the federal Capitalization Grants for State Revolving Funds grant (*CFDA #66.458*). Subrecipient project eligibility and loan terms are determined by DEQ. Loan processing and actual distribution of funds to subrecipient municipalities from SRF are directed by MMBA. The sources of funds within SRF from which municipalities draw assistance include federal SRF Capitalization Grant funds, repayments of prior loan principal and interest, and SRF earnings.

Our review of six Single Audit reports from four municipalities that received SRF loans disclosed that the municipalities failed to identify disbursements received from SRF as federal assistance on their schedules of federal financial assistance.

* See glossary at end of report for definition.

The U.S. Environmental Protection Agency's (EPA's) SRF Program guidance states that the direct recipient of the federal assistance (i.e., DEQ) must ensure that the SRF Program subrecipients comply with the provisions of the Single Audit Act and that funds directly made available to the municipalities from the Capitalization Grants for State Revolving Funds should be considered federal funds subject to the terms of the Single Audit Act. Also, Title 40, Part 31, section 37 of the *Code of Federal Regulations* requires DEQ to ensure that its subrecipients are aware of requirements imposed upon them by federal statute and regulations. Further, the Single Audit Act requires DEQ to provide subrecipients with the federal program name and identifying numbers in addition to the federal requirements which govern the use of awards.

DEQ informed us that it informed subrecipient municipalities in the grant agreements and contracts that the money loaned was federal financial assistance. However, in our review of the grant agreements and contracts, we did not find any specific identification. MMBA informed us that it did not consider SRF loans to municipalities to be federal financial assistance. Correspondingly, MMBA communications to municipalities regarding SRF disbursements did not identify the disbursements as federal financial assistance.

Without clear identification to SRF subrecipient municipalities that SRF loans are federal financial assistance, DEQ does not have assurance that the municipalities are complying with all federal regulations applicable to the SRF Program. DEQ reported distributions to subrecipients of \$82.1 million and \$50.1 million for fiscal years 1996-97 and 1995-96, respectively, for Capitalization Grants for State Revolving Funds on its schedule of federal financial assistance. Capitalization grants supporting new project commitments during the same fiscal years totaled \$26.8 million and \$86.6 million, respectively.

RECOMMENDATION

We recommend that DEQ ensure that SRF subrecipient municipalities are aware that SRF loans are federal financial assistance.

AGENCY PRELIMINARY RESPONSE

DEQ disagrees with this finding. This finding contradicts Finding 5.c., which states that DEQ required SRF Program subrecipients to submit Single Audit reports.

Confusion has existed within the State and across the country over the nature of these funds given that the federal grant capitalizes SRF. Despite this confusion, DEQ has held the subrecipients accountable for federal subrecipient requirements, including the Single Audit Act and Minority Business Enterprise/Women Business Enterprise requirements. DEQ does not send a separate letter to municipalities advising them of the audit requirement because its brochure, the annual intended use plan, and, more importantly, the application that is signed by the municipal applicant identify the federal capitalization grants. Specifically, Part II, Page 8, Section 8 of the loan application references the Single Audit Act requirements. This application is specifically mentioned in the Supplemental Agreement signed by the municipality and MMBA at loan closing. Additionally, the most recent EPA review of the SRF Program found that the Program complies with federal statutes and regulations. Despite DEQ's disagreement with this finding, it will review its notification procedures to see if the nature of these funds can be further clarified.

FINDING

5. Subrecipient Monitoring

DEQ did not monitor subrecipients in accordance with the Single Audit Act and federal regulations.

The Single Audit Act and federal regulations require DEQ to ensure that subrecipients spend federal funds provided in accordance with applicable laws and regulations. This can be accomplished by reviewing an audit of the subrecipient or through other means, such as program reviews. DEQ's process to comply with these requirements included a department-level review of subrecipient Single Audit reports and division-level program monitoring activities. Also, DEQ arranged for Single Audit reports from SRF Program subrecipients to be reviewed at the Division of Local Audit and Finance, Bureau of Local Government Services, Department of Treasury.

Our review of DEQ's subrecipient monitoring practices disclosed:

- a. DEQ did not receive Single Audit reports from all subrecipients, and many reports that were received did not meet Single Audit requirements. During fiscal year 1994-95, DEQ directly awarded 52 grants totaling \$3.9 million to 50

subrecipients who met the Single Audit threshold. DEQ received and reviewed Single Audit reports from 38 subrecipients as of June 1998. It did not receive audit reports from 12 of the 50 subrecipients. Of the 39 reports submitted, only 18 reports met Single Audit requirements. During fiscal year 1995-96, DEQ directly awarded 50 grants totaling \$4.7 million to 49 subrecipients who met the Single Audit threshold. DEQ received and reviewed Single Audit reports from 32 subrecipients submitted as of June 1998. It did not receive audit reports from 17 of the 49 subrecipients. Of the 32 reports submitted, only 19 reports met Single Audit requirements.

- b. DEQ did not always ensure that divisions obtained required performance and financial reports from grant subrecipients. The Land and Water Management Division awarded 72 Coastal Zone Management Administration Awards subgrants during fiscal year 1995-96 and 76 subgrants during fiscal year 1996-97. We reviewed files for 6 of these subgrants and noted 2 that did not have quarterly or final performance and financial reports to ensure Coastal Zone Management project compliance or completion. We also noted that, seven months after the close of the grant agreements, no final performance or financial reports were on file to indicate that the projects were completed. We were informed by DEQ that one of these subgrantees did submit its final performance documentation subsequent to our review.
- c. Although DEQ required SRF Program subrecipients to submit Single Audit reports to the Division of Local Audit and Finance, DEQ did not verify that the Division had developed a system to review and follow up on submitted reports. The Division filed municipalities' Single Audit reports when submitted without performing any review. We reviewed audit reports for 4 municipalities that received SRF disbursements and noted that 2 municipalities' Single Audit reports cited either material internal control weaknesses or material noncompliance with laws and regulations for other federal programs administered by the subrecipients.

RECOMMENDATION

We recommend that DEQ monitor subrecipients in accordance with the Single Audit Act and federal regulations.

AGENCY PRELIMINARY RESPONSE

DEQ agrees with Findings 5.a. and 5.c. and will take the appropriate actions to strengthen its subrecipient monitoring program. For the two-year audit period, DEQ's subrecipient monitoring efforts were tied to the new federal Office of Management and Budget Circular A-133 requirements taking effect June 30, 1997, which increased the threshold to \$300,000 for when a Single Audit is required. DEQ informed us that it followed up with grantees who did not submit a Single Audit when it thought that the grantees would meet the new threshold to inform them of the new requirements. In addition, DEQ will work with MMBA to modify the memorandum of understanding to clarify responsibility for review and follow-up of submitted Single Audit reports and implement the memorandum of understanding as modified.

DEQ agrees in part with Finding 5.b. Performance or financial reports are not always received on a timely basis from the grant recipients and a number of reasons exists for this to happen. It could be that either no work is done for a period of time or no billings are received from contractors. Program staff make every effort to obtain information from subrecipients where there is something to report. Furthermore, contract language allows for a 25% holdback until all conditions of the grant are met. Without reports, no payments are processed. These are DEQ's controls to ensure that reporting requirements are met before payments are made. At fiscal year-end, if the grant period has ended but not all contractual obligations are fulfilled, an account payable is established and maintained until conditions are met. If the project tasks are not completed or required reports are never received, payment is not made for the final 25% and the account payable is written off. In addition, a project audit is conducted and the recipient is required to reimburse the State for any paid but unearned grant funds. If requirements are still not fulfilled when the overall federal grant to DEQ expires, any open contracts are immediately closed.

FINDING

6. Federal Grant Payroll Cost Allocation

DEQ did not properly allocate payroll expenditures to federal grant programs.

Federal regulations require that personnel activity reports must certify the actual employee time worked on the grant activity. Regulations allow the use of estimates or other distribution methods for interim accounting. However, at least quarterly, comparisons of actual costs to budgeted distributions are to be completed and adjustments made as required.

Our review of payroll expenditures charged to federal programs by DEQ identified the following programs that appeared to have budget-driven payroll costs that were not adjusted to or based on actual time worked on the grant activity:

- a. Certain staff costs charged to the SRF Program were allocated based on a budget rather than actual time worked or an approved methodology. Hours were charged to the grant for each pay period for employees in the Environmental Assistance Division and the Surface Water Quality Division. DEQ stated that the percentages charged to grants were sometimes based on historical data and estimates of time required to complete the assigned tasks.

In fiscal years 1996-97 and 1995-96, DEQ allocated payroll costs of \$2.4 million and \$1.4 million, respectively, to the SRF Program (see schedule of questioned costs item 6).

- b. Certain Land and Water Management Division administrative staff time sheets did not report the actual time worked on Coastal Zone Management Administration Awards grant activities. These time sheets consistently reported the same number of hours worked on federal, nonfederal, and other job functions for each pay period. Land and Water Management Division staff informed us that the administrative staff time is charged based on the budget in the grant application rather than actual time worked on grant activities (see schedule of questioned costs items 1 and 2).
- c. Surface Water Quality Division employees working on the Water Pollution Control - State and Interstate Program Support Grant (*CFDA* #66.419)

maintained biweekly activity logs; however, these logs were not used to bill the federal program. Payroll costs were allocated and charged based on the number of full-time equated positions included in a workplan submitted to the EPA for approval (see schedule of questioned costs item 4).

RECOMMENDATION

We recommend that DEQ establish a system to properly allocate payroll expenditures to federal grant programs.

AGENCY PRELIMINARY RESPONSE

DEQ agrees with this finding. Relative to Findings 6.a. and 6.b., administrative staff charges were allocated based on a budget, using historical time and activity data. DEQ will study this issue and develop and implement a cost methodology for administrative staff time based on grant related activities to take effect October 1, 1999. With regard to Finding 6.c., DEQ will implement steps to ensure that charges to the Section 106 program reflect actual work records and activity logs.

FINDING

7. Terminal Leave Payments Allocated to Federal Grants

DEQ inappropriately charged terminal leave payments to federal grant programs using a direct cost method without obtaining prior approval of the method from the cognizant federal agency.

Federal Office of Management and Budget Circular A-87, Attachment B, requires the approval of the cognizant federal agency when using a direct cost method. A directive issued on July 22, 1997 by the Office of Financial Management, Department of Management and Budget (DMB), provides further guidance for appropriate allocation of terminal leave payments to federal financial assistance programs. It also directs that prior approval from the cognizant agency is required to use a direct cost method. For fiscal year 1996-97, DEQ charged terminal leave payments totaling \$76,980 directly to the federal financial assistance programs (see schedule of questioned costs item 10).

RECOMMENDATION

We recommend that DEQ obtain prior approval from the cognizant federal agency for using a direct cost method for allocating terminal leave payments to federal grant programs.

AGENCY PRELIMINARY RESPONSE

DEQ agrees and informed us that it has obtained retroactive approval from the EPA for the use of a direct cost methodology, with year-end adjustments. This will necessitate a review of the allocation of these costs in fiscal years 1997-98, 1998-99, 1999-2000, and 2000-01 to ensure that the terminal leave costs charged to the federal programs do not exceed what would have been charged if a special terminal leave rate had been used.

FINDING

8. Federal Indirect Cost Rate

DEQ did not accurately compute the indirect cost rate for fiscal year 1995-96 and did not maintain documentation of its computation of the indirect cost rate and audit rate* for both fiscal years of our audit.

According to the DMB Office of Financial Management's Statewide Cost Allocation Plan (SWCAP) memorandum, departments should include the appropriate SWCAP allocations in their indirect cost pools when preparing the departmental cost allocation plans. DEQ incorrectly included the fiscal year 1994-95 SWCAP costs, rather than the fiscal year 1993-94 SWCAP costs, when computing its fiscal year 1995-96 indirect cost rate. As a result of this, DEQ applied an incorrect rate to all federal programs for fiscal year 1995-96. We recalculated the indirect cost rate and determined that it should have been 17.78% rather than the 18.68% used by DEQ. This error resulted in DEQ overcharging the federal programs approximately \$163,000 in fiscal year 1995-96 indirect costs (see schedule of questioned costs item 11). DEQ used the correct SWCAP costs to compute its fiscal year 1996-97 indirect cost rate. However, DEQ could not provide

* See glossary at end of report for definition.

documentation to support all of the schedules used to calculate its indirect cost rates and audit rate for both fiscal years of our audit.

RECOMMENDATION

We recommend that DEQ ensure the accurate computation of its indirect cost rates and maintain documentation of its computation of the indirect cost rates and audit rates.

AGENCY PRELIMINARY RESPONSE

DEQ agrees. During the first year of the audit period, the accounting staff responsible for the function of the preparation of the indirect rate remained with the Department of Natural Resources (DNR). This indirect rate had been negotiated by DNR with its cognizant agency, the federal Department of Interior. In fiscal year 1998-99, when DNR finalized the fiscal year 1995-96 rates with, this error was addressed. An adjustment was factored into and finalized as part of the negotiation of the settlement of the fiscal year 1995-96 rates in accordance with standard procedures to address such errors. After the split of DNR, for the preparation of DEQ's indirect rate for fiscal year 1997-98, DEQ retained the services of the same consulting firm contracted by DMB to prepare the Statewide Cost Allocation Plan. DEQ informed us that it contracted with this firm to prepare the settlement of fiscal year 1996-97 and the preparation of the indirect rate proposal for fiscal year 1999-2000. This consulting firm has significant experience in developing indirect rates and will ensure the accurate computation and appropriation documentation of the indirect rates.

FINDING

9. Establishment of the Drinking Water Revolving Fund

DEQ did not use funds from SRF in accordance with federal regulations.

Title 40, Part 35, section 3115 of the *Code of Federal Regulations* states that funds accumulated in SRF must be used solely to provide loans to municipalities or intermunicipal, interstate, or state agencies for the construction of municipal waste water treatment projects or for the development and implementation of nonpoint source or estuary conservation management programs and plans.

DEQ incorrectly charged approximately \$58,000 to SRF in fiscal year 1996-97 to support activities to establish the Drinking Water Revolving Fund (DWRf) (see schedule of questioned costs item 5). The EPA's DWRf Program* guidelines noted that states may recover reasonable costs associated with the development of DWRf if the costs were incurred between August 6, 1996 and the date on which the first capitalization grant for the DWRf grant is awarded to the state. The EPA did not award the first DWRf grant to DEQ until December 9, 1997. Although the expenditures are eligible for reimbursement by DWRf because they were incurred after August 6, 1996, there is no basis for charging these costs to SRF.

At the completion of our fieldwork, we were informed that DEQ had taken steps to reimburse SRF for inappropriate expenditures.

RECOMMENDATION

We recommend that DEQ use funds from SRF in accordance with federal regulations.

AGENCY PRELIMINARY RESPONSE

DEQ agrees and informed us that it has complied. DWRf's enabling legislation was not established in time to obtain an appropriation for fiscal year 1996-97. In order to comply with the federal guidelines that allowed DEQ to recover expenditures related to the establishment of DWRf, DEQ recorded these costs in the SRF appropriations with coding which indicated that they should be funded with DWRf money. The expenditures were then reimbursed by DWRf when the funds were available.

FINANCIAL ACCOUNTING AND REPORTING

COMMENT

Audit Objective: To audit DEQ's financial statements and schedules for the fiscal years ended September 30, 1997 and September 30, 1996.

* See glossary at end of report for definition.

Conclusion: We expressed an unqualified opinion on DEQ's financial statements and schedules. However, our audit disclosed reportable conditions related to the Bottle Deposits Fund spending authority and accounts payable estimation.

FINDING

10. Bottle Deposits Fund Spending Authority

DEQ and DMB did not transfer fiscal year 1996-97 unclaimed bottle deposit revenue spending authorization from the General Fund to the Bottle Deposits Fund (BDF).

Act 319, P.A. 1996, appropriated \$15 million of unclaimed bottle deposit revenue to DEQ. DEQ established the \$15 million authorization in the General Fund. Act 384, P.A. 1996, created BDF to provide for the disposition of unredeemed bottle deposits and, in addition, earmarked \$15 million of unclaimed bottle deposit revenue to BDF. Before BDF was established, DEQ incurred \$2.2 million in expenditures in the General Fund. When the \$15 million in revenue was received, DEQ appropriately recorded the revenue in BDF; however, the spending authority and expenditures remained in the General Fund. Because the revenue was recorded in BDF, DEQ transferred \$2.2 million in revenue from BDF to the General Fund. As a result, BDF revenues and expenditures are understated and the General Fund revenues and expenditures are overstated by \$2.2 million.

Section 1800.115 of the *Codification of Governmental Accounting and Financial Reporting Standards* requires governmental fund revenues to be properly classified by fund and by source of funds.

At the completion of our fieldwork, the DMB Office of Financial Management approved DEQ's request to present corrected BDF and General Fund financial statements and requested the DMB Office of the Budget to take appropriate action to move the related spending authority from the General Fund to BDF. This adjustment is reflected in the financial statements and schedules presented in this report.

RECOMMENDATION

We recommend that DEQ and DMB ensure transfer of the spending authority for BDF from the General Fund.

AGENCY PRELIMINARY RESPONSE

DEQ agrees and informed us that it has complied. DMB transferred the spending authority for BDF from the General Fund.

FINDING

11. **Accounts Payable Estimation**

The Environmental Response Division had not developed a method for estimating fiscal year-end accounts payable, resulting in misstatements of expenditures and accounts payable in the Environmental Protection Bond Fund and the General Fund.

The Environmental Response Division did not estimate the amounts due to vendors at the close of the fiscal year. If an invoice was received after the mid-November fiscal year deadline for processing the old year expenditure, the Division recorded the expenditure in the new fiscal year even though services may have been provided in the old fiscal year.

In our expenditure testing, we reviewed 28 vouchers for the Environmental Response Division for two fiscal years totaling \$2,742,506. We found 2 vouchers totaling \$230,767 for the Environmental Protection Bond Fund that were recognized as fiscal year 1996-97 expenditures. The expenditures should have been recorded as accounts payable and recognized as expenditures for fiscal year 1995-96. We also found one General Fund expenditure document totaling \$13,904 recorded as an expenditure for fiscal year 1995-96 that should have been recorded as an account payable and recognized as a fiscal year 1994-95 expenditure. The vouchers related to activities performed at workproject sites administered by the Environmental Response Division.

RECOMMENDATION

We recommend that the Environmental Response Division develop a method for estimating fiscal year-end accounts payable.

AGENCY PRELIMINARY RESPONSE

DEQ partially agrees. A number of techniques have been attempted to address this issue. Work on these sites spans fiscal years and experience shows that it is difficult to obtain estimates from vendors in order to establish accounts payable. Additionally, these appropriations have work project authorization. Given the multiyear nature of contaminated site remediation, the contracts are encumbered when issued. In addition, past efforts to estimate accounts payable resulted in criticism regarding the amount of adjustments and write-offs that were required. DEQ will continue to work with the contractors to find new ways to address this situation.

Independent Auditor's Report on the
Internal Control Structure

November 12, 1998

Mr. Russell J. Harding, Director
Department of Environmental Quality
Hollister Building
Lansing, Michigan

Dear Mr. Harding:

We have audited the financial statements and schedules of the Department of Environmental Quality as of and for the fiscal years ended September 30, 1997 and September 30, 1996 and have issued our reports thereon dated November 12, 1998. We have also audited the Department of Environmental Quality's compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated November 12, 1998.

We conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements and schedules are free of material misstatement and about whether the Department complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audits for the fiscal years ended September 30, 1997 and September 30, 1996, we considered the Department's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Department's financial statements and schedules and not to provide assurance on the internal control structure. We also considered the Department's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on its compliance with requirements applicable to major federal financial assistance programs, and to report on the internal control structure in accordance with OMB Circular A-128.

The management of the Department of Environmental Quality is responsible for establishing and maintaining an internal control structure, which operates in conjunction with the Statewide internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements and schedules in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures, including those used in administering federal financial assistance programs, in the following categories:

Accounting Controls

- Payroll-personnel system
- Nonpayroll expenditures and accounts payable
- Revenue and accounts receivable
- Spending authorizations, transfers, and encumbrances

Administrative Controls

General requirements:

- Political activity
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements

Specific requirements:

- Types of services allowed or unallowed
- Eligibility
- Matching, level of effort, and/or earmarking requirements
- Special reporting requirements
- Special tests and provisions
- Subrecipient monitoring

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

During the fiscal years ended September 30, 1997 and September 30, 1996, the Department of Environmental Quality expended 88% and 92%, respectively, of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the Department's major federal financial assistance programs, which are identified in the accompanying schedule of federal financial assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements and schedules or to administer federal financial assistance programs in accordance with applicable laws and regulations. The reportable conditions are more fully described in Findings 1 through 3.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements and schedules being audited or that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure policies and procedures, including those used in administering federal financial assistance programs, would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of management and the Legislature. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

Independent Auditor's Report on
Compliance With Laws and Regulations

November 12, 1998

Mr. Russell J. Harding, Director
Department of Environmental Quality
Hollister Building
Lansing, Michigan

Dear Mr. Harding:

We have audited the financial statements and schedules of the Department of Environmental Quality as of and for the fiscal years ended September 30, 1997 and September 30, 1996 and have issued our report thereon dated November 12, 1998.

We conducted our audit in accordance with generally accepted auditing standards and *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 statements and schedules are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Department of Environmental Quality is the responsibility of the Department's management. As part of obtaining reasonable assurance about whether the financial statements and schedules are free of material misstatement, we performed tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements and schedules was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, the Department of Environmental Quality complied, in all material respects, with the provisions referred to in the previous paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the Department had not complied, in all material respects, with those provisions.

We have also audited the Department's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, and/or earmarking; special reporting requirements; special tests or provisions; subrecipient monitoring; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying schedule of federal financial assistance, for the fiscal years ended September 30, 1997 and September 30, 1996. The management of the Department is responsible for the Department's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards; *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to in the previous paragraph occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the findings and recommendations and the accompanying schedule of questioned costs. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the Department of Environmental Quality complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, and/or earmarking; special reporting requirements; special tests or provisions; subrecipient monitoring; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs for the fiscal years ended September 30, 1997 and September 30, 1996.

In connection with our audit of the financial statements and schedules of the Department for the fiscal years ended September 30, 1997 and September 30, 1996 and with our consideration of the Department's internal control structure used to administer federal financial assistance programs, as required by OMB Circular A-128, we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the fiscal years ended September 30, 1997 and September 30, 1996. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing types of services allowed and unallowed that are applicable to those transactions. Also, we have applied procedures to test the Department's compliance with the following requirements applicable to its

federal financial assistance programs, which are identified in the schedule of federal financial assistance, for the fiscal years ended September 30, 1997 and September 30, 1996:

- Political activity
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements

Our procedures for testing compliance with the general requirements were limited to the applicable procedures described in OMB's *Compliance Supplement for Single Audits of State and Local Governments*. Our procedures for testing compliance with the general requirements and the requirements applicable to the nonmajor programs, which are described in the previous paragraph, were substantially less in scope than an audit, the objective of which is the expression of an opinion on the Department's compliance with these requirements. Accordingly, we do not express such an opinion.

The results of our audit procedures used to determine compliance with the general requirements disclosed a material instance of noncompliance with those requirements for the Department's State Revolving Fund Program. This material instance of noncompliance is described in Finding 4. Also, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the findings and recommendations and/or the accompanying schedules of questioned costs and immaterial noncompliance.

Except as described above, with respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the third previous paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the Department of Environmental Quality had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the Legislature. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

Independent Auditor's Report on
the Financial Statements

November 12, 1998

Mr. Russell J. Harding, Director
Department of Environmental Quality
Hollister Building
Lansing, Michigan

Dear Mr. Harding:

We have audited the accompanying combined balance sheet of the Department of Environmental Quality as of September 30, 1997 and September 30, 1996 and the related combined statement of revenues, expenditures, and changes in fund balances for the fiscal years then ended. These financial statements are the responsibility of the management of the Department. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1e, the accompanying financial statements present only specific funds administered by the Department of Environmental Quality and are not intended to present fairly the financial position and results of operations of the State of Michigan or its special revenue and agency funds.

In our opinion, the combined financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Department of

Environmental Quality's Funds, as noted in Note 1b, as of September 30, 1997 and September 30, 1996 and the results of operations for the fiscal years then ended on the basis of accounting described in Note 1d.

The Department of Environmental Quality is the recipient of a grant (Capitalization Grants for State Revolving Funds, *CFDA #66.458*) from the U.S. Environmental Protection Agency to provide loans to municipalities for construction of sewage treatment facilities. This grant is accounted for in the State Water Pollution Control Loan Fund. The fund is audited by other auditors in their audit of the Michigan Municipal Bond Authority, a component unit of the State of Michigan. That audit report is separately issued.

Our audit was made for the purpose of forming an opinion on the Department's financial statements. The accompanying supplemental financial statements, consisting of the combining balance sheet; combining statement of revenue, expenditures, and changes in fund balance; and statement of changes in assets and liabilities, are presented for purposes of additional analysis and are not a required part of the Department's financial statements referred to in the first paragraph. The information in the supplemental financial statements has been subjected to the auditing procedures applied in the audit of the Department's financial statements and, in our opinion, is fairly stated in all material respects in relation to the Department's financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 12, 1998 on our consideration of the Department of Environmental Quality's internal control structure and a report dated November 12, 1998 on its compliance with laws and regulations.

AUDITOR GENERAL

Independent Auditor's Report on
the Financial Schedules

November 12, 1998

Mr. Russell J. Harding, Director
Department of Environmental Quality
Hollister Building
Lansing, Michigan

Dear Mr. Harding:

We have audited the accompanying schedule of General Fund revenues and operating transfers and the schedule of sources and disposition of General Fund authorizations of the Department of Environmental Quality for the fiscal years ended September 30, 1997 and September 30, 1996. These financial schedules are the responsibility of the management of the Department. Our responsibility is to express an opinion on these financial schedules based on our audit. The operations of the Department of Environmental Quality are accounted for in the General Fund and various special revenue funds of the State of Michigan.

We conducted our audit in accordance with generally accepted auditing standards and *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 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 1e, the accompanying financial schedules include only the revenues and operating transfers and the sources and disposition of authorizations for the Department of Environmental Quality's General Fund accounts, presented on the modified accrual basis of accounting. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either the Department of Environmental Quality or the State's General Fund in accordance with generally accepted accounting principles.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenues and operating transfers and the sources and disposition of authorizations of the Department of Environmental Quality for the fiscal years ended September 30, 1997 and September 30, 1996 on the basis of accounting described in Note 1d.

Our audit was made for the purpose of forming an opinion on the Department's financial schedules. The accompanying supplemental financial schedule, the schedule of federal financial assistance, 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. The information in the supplemental financial schedule has been subjected to the auditing procedures applied in the audit of the Department's financial schedules and, in our opinion, is fairly stated in all material respects in relation to the Department's financial schedules.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 12, 1998 on our consideration of the Department of Environmental Quality's internal control structure and a report dated November 12, 1998 on its compliance with laws and regulations.

AUDITOR GENERAL

Descriptions of Special Revenue Funds

ENVIRONMENTAL PROTECTION BOND FUND

This Fund was established by Act 328, P.A. 1988, to account for the proceeds of \$660 million of general obligation bonds approved by the people in November 1988. The bonds are authorized for financing environmental protection programs to clean up sites of toxic and other environmental contamination and contribute to a regional Great Lakes Protection Fund, address solid waste problems, treat sewage and other water quality problems, and reuse industrial sites and preserve open space. The Act also specifies that not more than \$425 million of the proceeds of these bonds be used to clean up sites of toxic and other environmental contamination, not more than \$150 million be used for solid waste projects, not more than \$60 million be used to capitalize the State Water Pollution Control Loan Fund (recorded as equity transfers to the Michigan Municipal Bond Authority), and not more than \$25 million be used to fund Michigan's participation in a regional Great Lakes Protection Fund.

MICHIGAN UNDERGROUND STORAGE TANK FINANCIAL ASSURANCE FUND

The Michigan Underground Storage Tank Financial Assurance (MUSTFA) Fund was established by Act 518, P.A. 1988, to assist certain owners and operators of underground storage tank systems in meeting their financial responsibility requirements provided for in the Solid Waste Disposal Act. It is administered by the Department of Environmental Quality and an 11-member advisory board.

The primary source of revenues is an environmental protection regulatory fee of 7/8 of a cent per gallon imposed on all refined petroleum products sold for resale. Expenditures are primarily amounts spent to assist in environmental clean-up. Acts 252 and 269, P.A. 1995, limit the MUSTFA Fund's liability for claims to those claims received by June 29, 1995. The State's liability for environmental cleanup claims is further limited by law to the amount of available resources. Liabilities, in excess of available funds, for unpaid work performed on eligible environmental cleanup claims will be paid from future years' revenues and are recorded as a liability in the general long-term obligations account group.

BOTTLE DEPOSITS FUND

This Fund was created by Act 384, P.A. 1996, to provide for the disposition of unredeemed bottle deposits. The Fund is administered by the Department of Environmental Quality. The law mandates that, when the Fund is operational, an annual distribution of the funds will be made as follows: 25% returned to the dealers and 75% to fund several subfunds. The initial split of the funds and all refunds to dealers are determined and processed by the Department of Treasury.

The 75% is initially deposited into the Cleanup and Redevelopment Trust Subfund (CRTF) and, if not further distributed, remains there until the principal amount reaches \$200 million.

For each of the fiscal years 1996-97, 1997-98, and 1998-99, up to \$15 million must be distributed from CRTF to the Cleanup and Redevelopment Subfund (CRF). Additionally, of funds received annually by CRTF, 80% is allocated to CRF and 10% to the Community Pollution Prevention Subfund.

Act 380, P.A. 1996, moved the former Environmental Response Fund (ERF) to a subfund of CRF. The law mandates that proceeds of all cost recovery actions taken and settlements entered into pursuant to ERF (excluding natural resource damages) by the Department or the Attorney General, or both, shall be credited to ERF.

Description of Agency Fund

ENVIRONMENTAL QUALITY DEPOSITS FUND

This Fund was reauthorized by Act 451, P.A. 1994, as amended, to account for cash bonds posted by applicants desiring licenses to operate hazardous and solid waste disposal areas. Because the Scrap Tire Regulatory Fund created by Act 451, P.A. 1994, has similar provisions, both of these activities are accounted for in this Fund. In accordance with Act 451, P.A. 1994, as amended, interest earnings at an annual rate of 6% are credited to the applicant's account. This Act also specifies the circumstances under which the director of the Department of Environmental Quality is authorized to use the deposits to close and maintain a facility or return the deposit upon the operator's satisfactory closure and maintenance of the facility.

DEPARTMENT OF ENVIRONMENTAL QUALITY

Combined Balance Sheet

As of September 30

(in thousands)

	<u>Governmental Fund Types</u>		<u>Fiduciary Fund Types</u>	
	<u>Special Revenue</u>		<u>Agency</u>	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1997</u>
ASSETS				
Current Assets:				
Cash	\$	\$ 2	\$ 4	\$
Equity in Common Cash	81,655	111,847	3,415	2,101
Taxes, interest, and penalties receivable	4,912	2,685		
Amounts due from other funds	1,088			
Amounts due from federal agencies		5		
Other current assets	<u>1,862</u>	<u>551</u>		
Total Current Assets	\$ 89,518	\$ 115,090	\$ 3,419	\$ 2,101
Other noncurrent assets	<u>3,082</u>	<u>510</u>		
Total Assets	<u>\$ 92,600</u>	<u>\$ 115,601</u>	<u>\$ 3,419</u>	<u>\$ 2,101</u>
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Warrants outstanding	\$ 1,355	\$ 5,909	\$	\$
Accounts payable and other liabilities (Note 3)	21,571	17,153	3,419	2,101
Amounts due to other funds	55,857	84,946		
Deferred revenue	<u>554</u>			
Total Current Liabilities	\$ 79,337	\$ 108,008	\$ 3,419	\$ 2,101
Deferred revenue	<u>2,738</u>			
Total Liabilities	<u>\$ 82,075</u>	<u>\$ 108,008</u>	<u>\$ 3,419</u>	<u>\$ 2,101</u>
Fund Balances:				
Reserves for:				
Budgetary carry-forwards:				
Encumbrances	\$ 1	\$	\$	\$
Restricted revenues	57,050	9,323		
Multi-year projects	54,433			
Revolving loan programs	1,105	982		
Funds held as permanent investments (Note 9)	<u>858</u>	<u>35,316</u>		
Total Reserved	\$ 113,447	\$ 45,621	\$ 0	\$ 0
Unreserved	<u>(102,923)</u>	<u>(38,029)</u>		
Total Fund Balances	<u>\$ 10,524</u>	<u>\$ 7,592</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Liabilities and Fund Balances	<u>\$ 92,600</u>	<u>\$ 115,601</u>	<u>\$ 3,419</u>	<u>\$ 2,101</u>

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

DEPARTMENT OF ENVIRONMENTAL QUALITY
 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Fiscal Years Ended September 30
 (in thousands)

	<u>Governmental Fund Types</u>	
	<u>Special Revenue</u>	
	<u>1997</u>	<u>1996</u>
REVENUES		
Taxes	\$ 60,258	\$ 57,981
From federal agencies		2
From licenses and permits		
Interest and other miscellaneous	<u>17,133</u>	<u>40,766</u>
Total Revenues	<u>\$ 77,391</u>	<u>\$ 98,749</u>
EXPENDITURES		
Current:		
General government	\$ 252	\$ 162
Environmental	<u>66,148</u>	<u>150,152</u>
Total Expenditures (Note 3)	<u>\$ 66,400</u>	<u>\$ 150,314</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 10,991</u>	<u>\$ (51,565)</u>
OTHER FINANCING SOURCES (USES)		
Proceeds from bond issues	\$	\$ 6,149
Operating transfers from other funds	17,714	13,270
Operating transfers to other funds	<u>(25,773)</u>	<u>(40,172)</u>
Total Other Financing Sources (Uses)	<u>\$ (8,059)</u>	<u>\$ (20,753)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 2,932	\$ (72,318)
Fund Balances - Beginning of fiscal year	7,592	86,451
Equity transfers to other funds (Note 6)		<u>(6,541)</u>
Fund Balances - End of fiscal year	<u>\$ 10,524</u>	<u>\$ 7,592</u>

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

DEPARTMENT OF ENVIRONMENTAL QUALITY
Schedule of General Fund Revenues and Operating Transfers
Fiscal Years Ended September 30
(in thousands)

	<u>1997</u>	<u>1996</u>
REVENUES		
Federal	\$ 30,126	\$ 23,556
Local units	479	1,628
From services		3
Licenses and permits	19,429	19,078
Miscellaneous	<u>19,047</u>	<u>23,843</u>
Total Revenues	<u>\$ 69,081</u>	<u>\$ 68,109</u>
OPERATING TRANSFERS		
From Michigan Transportation Fund	\$ 750	\$ 768
From Michigan Underground Storage Tank		
Financial Assurance Fund	<u>3,000</u>	<u> </u>
Total Operating Transfers	<u>\$ 3,750</u>	<u>\$ 768</u>
Total Revenues and Operating Transfers	<u>\$ 72,831</u>	<u>\$ 68,877</u>

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

DEPARTMENT OF ENVIRONMENTAL QUALITY
Schedule of General Fund Sources and Disposition of Authorizations
Fiscal Years Ended September 30
(in thousands)

	1997	1996
SOURCES OF AUTHORIZATIONS		
General purpose appropriations	\$ 78,693	\$ 73,516
Balances carried forward	70,802	33,737
Restricted financing sources	70,390	70,203
Less: Intrafund expenditure reimbursements	(878)	(2,237)
Total	<u>\$ 219,008</u>	<u>\$ 175,218</u>
 DISPOSITION OF AUTHORIZATIONS		
Gross expenditures and operating transfers out	\$ 135,531	\$ 113,378
Less: Intrafund expenditure reimbursements	(878)	(2,237)
Net expenditures and operating transfers out	\$ 134,653	\$ 111,141
Balances carried forward:		
Multi-year projects	47,299	26,313
Encumbrances	3,395	2,401
Restricted revenue	33,423	34,365
Balances lapsed	2,239	999
Overexpended (Note 2)	(2,002)	
Total	<u>\$ 219,008</u>	<u>\$ 175,218</u>

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

Notes to Financial Statements and Financial Schedules

Note 1 Significant Accounting Policies

a. New Reporting Entity

On August 1, 1995, the Governor issued Executive Order 1995-18, which divided the Department of Natural Resources into two departments: the Department of Natural Resources (DNR) and the Department of Environmental Quality (DEQ). Effective October 1, 1995, DEQ is responsible for environmental protection and DNR is responsible for resource management. Although DNR performed certain accounting functions related to the fiscal year ended September 30, 1996, the accompanying financial statements and schedules reflect operating activity for DEQ. The operating activity for DNR is reported in a separately issued report.

b. Reporting Entity - Financial Statements

The accompanying financial statements report the financial position and results of operations of the following funds as of and for the fiscal years ended September 30, 1997 and September 30, 1996.

DEQ administers the following funds:

Special Revenue

Environmental Protection Bond Fund

Michigan Underground Storage Tank Financial Assurance Fund

Bottle Deposits Fund

Agency

Environmental Quality Deposits Fund

These funds are a part of the State of Michigan reporting entity and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

c. Reporting Entity - Financial Schedules

The accompanying financial schedules report the results of the governmental operations of DEQ for the fiscal years ended September 30, 1997 and September 30, 1996. The governmental operations of DEQ are accounted for principally in the State's General Fund and are reported on in the *SOMCAFR*. Other DEQ activities related to environmental clean-up are reported in various special revenue funds.

d. Basis of Accounting

The financial statements and schedules contained in this report are prepared on the modified accrual basis of accounting. The modified accrual basis of accounting, which emphasizes the measurement of current financial resource flows, is explained in more detail in the *SOMCAFR*.

e. Basis of Presentation

The accompanying financial statements present only the funds listed in Note 1b. The accompanying financial schedules include only the revenues and operating transfers and the sources and disposition of authorizations for DEQ's General Fund accounts. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies, Budgeting and Budgetary Control, Treasurer's Common Cash, Pension Benefits and Other Postemployment Benefits, Compensated Absences, and Interfund Receivables and Payables.

Accordingly, these financial statements and schedules are not intended to constitute a complete financial presentation of the Department, the State of Michigan, the State's General Fund, or the State's special revenue and agency funds in accordance with generally accepted accounting principles.

The financial transactions of DEQ are recorded in the General Fund and individual funds in the State's central accounting system. The various

environmental quality funds are combined in the *SOMCAFR* into fund types described as follows:

Governmental Fund Types

Special Revenue Funds: This fund group includes operating fund activities which account for the proceeds of certain specific revenue sources that are legally restricted for specific purposes.

Fiduciary Fund Types

Agency Funds: This group includes assets held by DEQ on behalf of outside parties. DEQ's responsibility is custodial in nature, and the asset and liability balances, but not operating results, are included within these statements.

Note 2 Budgeting and Budgetary Control

There were no net overexpenditures in the General Fund. However, line-item overexpenditures of \$2.002 million of State funds occurred during the year, which represent noncompliance with State budget laws. Overexpenditures of DEQ's General Fund accounts are reported on the schedule of General Fund sources and disposition of authorizations. This \$2.002 million overexpenditure is related to the write-off of uncollectible accounts receivable which were established in prior fiscal years.

Note 3 Accounting Changes and Revisions

Prior to fiscal year 1995-96, accounting system limitations prevented the allocation of multi-fund appropriations into more than one fund. Many appropriations and related expenditures of the special revenue fund category were reported in the General Fund and were then financed by operating transfers from the related special revenue fund. Beginning in fiscal year 1995-96, multi-fund appropriations and their related expenditures were allocated directly to the individual funds. This change increased direct expenditures in the special revenue fund category and reduced operating transfers out by approximately \$100 million Statewide compared to the previous year.

In fiscal year 1996-97, DEQ corrected a fiscal year 1994-95 error of approximately \$5 million in the Environmental Protection Bond Fund. This conversion error resulted in understated expenditures and accounts payable in fiscal year 1994-95 and accounts payable in fiscal year 1995-96 in the Fund. The effect of this correction on the Fund's financial statements in fiscal year 1996-97 is an overstatement of expenditures and a correct accounts payable balance.

On December 13, 1998, DEQ received approval from the Office of Financial Management, Department of Management and Budget, to present corrected financial statements and schedules for the General Fund, Bottle Deposits Fund, and Environmental Quality Deposits Fund. The primary impact of this approval is that the financial statements and schedules presented in this report for these Funds differ from those previously reported in the *SOMCAFR* by approximately \$2.2 million for the General Fund and Bottle Deposits Fund and \$170,000 for the Environmental Quality Deposits Fund.

Note 4 Joint Venture

The State, represented by DEQ, is a participant in a joint venture known as the Great Lakes Protection Fund. The joint venture is not reflected within this report because it did not meet the generally accepted accounting principles' criteria for inclusion. A description of the joint venture follows. Complete financial statements may be obtained directly by contacting the Financial Reporting Section, Office of Financial Management, Department of Management and Budget, at (517) 373-3029.

The Great Lakes Protection Fund is a not-for-profit corporation located in Chicago, Illinois. Its purpose is to finance and support research with respect to water quality of the Great Lakes. The eight states bordering on the Great Lakes are eligible to become members if they make a required contribution to the endowment of the Fund. Contribution requirements were established based upon water consumption and usage. Michigan is the largest contributor to the Fund, having made a contribution of \$25 million, constituting approximately 33% of the total. Michigan made its required contribution in fiscal year 1989-90 by issuing the Fund a general obligation bond authorized

as part of the State's environmental protection bond program. No additional contributions from Michigan will be required.

Each of the participating seven member states is represented by two members on the Fund's Board of Directors. The Board members are selected by the states' respective governors. The Fund's financing and budgeting operations are controlled by the directors within requirements established by the Articles of Incorporation. Net earnings after operating expenses are divided into parts. One third of the net earnings on total contributions is granted to the respective states in proportion to their contributions to the Fund, to be used for the purposes of the Fund. Two thirds of the net earnings are available to the Fund to make other grants. The State's equity interest in the Great Lakes Protection Fund of \$25 million is reflected in the *SOMCAFR* in the general fixed assets account group.

Note 5 MUSTFA Obligations

The special revenue fund named the Michigan Underground Storage Tank Financial Assurance (MUSTFA) Fund that is included in this report is not a full presentation of all activities related to the MUSTFA Program. The MUSTFA Finance Authority was established to provide financing, including short- and long-term debt instruments, for the MUSTFA Fund. The Finance Authority's activities are recorded in another special revenue fund and a debt service fund both named Michigan Underground Storage Tank Financial Assurance Finance Authority. Other MUSTFA program obligations are recorded in the State's general long-term obligations account group. These additional funds and the account group are a part of the State of Michigan reporting entity and are reported on in the *SOMCAFR*.

Other MUSTFA Program financial activities are reported elsewhere as follows (in millions):

	Fiscal Year	
	1996-97	1995-96
Obligations:		
General long-term obligations account group:		
Bonds outstanding	\$ 206.0	\$ 216.6
Claims outstanding	16.5	24.7
Special Revenue Fund:		
MUSTFA Finance Authority	4.2	1.3
Debt Service Fund:		
MUSTFA Finance Authority	(32.8)	(32.2)
	<hr/>	<hr/>
Net Obligations	<u>\$ 193.9</u>	<u>\$ 210.4</u>

Also see Note 7 and Note 10.

Note 6 Equity Transfers

An equity transfer of \$9.9 million was made from the General Fund to provide revolving fund loan capital for the State Revolving Fund Program within the Michigan Municipal Bond Authority (a discretely presented component unit) for fiscal year 1996-97.

An equity transfer of \$6.5 million was made from the MUSTFA Fund to the MUSTFA Finance Authority in fiscal year 1995-96 to move investments previously reported in the MUSTFA Fund that belong to the Authority.

Note 7 Fund Balance Deficits

The MUSTFA Fund (a special revenue fund) had an unreserved fund deficit of \$109.5 million. The deficit was caused by appropriations and payment of claims that exceeded revenue to date.

Note 8 Fund Balances Reserved for Unencumbered Restricted Revenue

These revenues are restricted, by statute, for use to a particular department program or activity. However, the expenditure of the restricted revenue is subject to annual legislative appropriation.

Note 9 Funds Held as Permanent Investments

Funds held as permanent investments in the Bottle Deposits Fund decreased by \$34.5 million. Act 380, P.A. 1996, created the Cleanup and Redevelopment Subfund and Act 384, P.A. 1996, created the Cleanup and Redevelopment Trust Subfund. Both subfunds were established within the Bottle Deposits Fund. In addition to the creation of the new subfund, Act 384, P.A. 1996, required the annual disbursement of up to \$15 million for each of the State's fiscal years 1996-97, 1997-98, and 1998-99 from the Cleanup and Redevelopment Trust Subfund to the Cleanup and Redevelopment Subfund. Prior to this legislation, these funds were held as permanent investments. Funds held as permanent investments represent amounts that have been legally restricted for the purpose of providing a long-term source of investment income. These investments can include either specific investments held for the fund or portions of the fund's share of the common cash pool.

Note 10 Contingencies

The MUSTFA Fund, a special revenue fund, receives revenues dedicated to reimbursing owners/operators of underground storage tanks for costs incurred related to conducting corrective actions at sites where a release has occurred from an underground storage tank. The MUSTFA Fund was declared insolvent and received no additional claims after June 29, 1995. The revenue is still collected to pay off two main obligations of the MUSTFA Fund: the long-term liability for incurred claims recorded in the general long-term obligations account group, and the debt and the debt service charges associated with the financial borrowing mechanisms utilized to expedite reimbursement to eligible owners/operators, which is discussed in Note 5.

Note 11 Subsequent Events

General Long-Term Obligations: On June 3, 1998, the Environmental Protection Bond Fund issued \$90 million in general obligations bonds. The proceeds of the

bonds were used to support expenditures for the environmental protection programs to clean up sites of toxic and other environmental contamination.

On November 3, 1998, the general public passed Proposal C, the Clean Michigan Initiative, authorizing the issuance of \$675 million of Clean Michigan Initiative bonds beginning in fiscal year 1998-99. The funds will be used primarily for Brown Field redevelopment, environmental cleanup, and water enhancement and protection.

Short-Term Borrowing: As of September 30, 1998, the MUSTFA Fund had \$39.5 million outstanding in commercial paper notes. These notes provide temporary financing for the activities of the MUSTFA Fund and are payable solely from dedicated revenues.

Equity Transfers: In fiscal year 1997-98, an equity transfer of \$29.2 million was made from the General Fund to provide capital for the State Site Cleanup Fund, a subfund of the Bottle Deposits Fund.

In fiscal year 1997-98, an equity transfer of \$4 million was made from the General Fund to provide capital for the Revitalizing Revolving Loan Fund, a subfund of the Bottle Deposits Fund.

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SUPPLEMENTAL FINANCIAL STATEMENTS AND SCHEDULES

DEPARTMENT OF ENVIRONMENTAL QUALITY
Combining Balance Sheet
Special Revenue Funds
As of September 30
(in thousands)

	<u>Environmental Protection</u>		<u>Bottle Deposits Fund</u>	
	<u>Bond Fund</u>			
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
ASSETS				
Current Assets:				
Cash	\$	\$ 2	\$	\$
Equity in Common Cash	19,896	49,962	60,972	47,088
Taxes, interest, and penalties receivable				
Amounts due from other funds				
Amounts due from federal agencies		5		
Other current assets	<u>107</u>	<u>60</u>	<u>1,242</u>	<u> </u>
Total Current Assets	\$ 20,003	\$ 50,029	\$ 62,214	\$ 47,088
Other noncurrent assets	<u>344</u>	<u>510</u>	<u>2,738</u>	<u> </u>
Total Assets	<u>\$ 20,347</u>	<u>\$ 50,539</u>	<u>\$ 64,952</u>	<u>\$ 47,088</u>
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Warrants outstanding	\$ 356	\$ 104	\$ 125	\$
Accounts payable and other liabilities	12,340	4,423	8,076	11,772
Amounts due to other funds	7	8	4	
Deferred revenue	<u> </u>	<u> </u>	<u>554</u>	<u> </u>
Total Current Liabilities	\$ 12,703	\$ 4,535	\$ 8,759	\$ 11,772
Deferred revenue	<u> </u>	<u> </u>	<u>2,738</u>	<u> </u>
Total Liabilities	<u>\$ 12,703</u>	<u>\$ 4,535</u>	<u>\$ 11,497</u>	<u>\$ 11,772</u>
Fund Balances:				
Reserves for:				
Budgetary carry-forwards:				
Encumbrances	\$	\$	\$	\$
Restricted revenues			52,596	
Multi-year projects				
Revolving loan programs	1,105	982		
Funds held as permanent investments	<u> </u>	<u> </u>	<u>858</u>	<u>35,316</u>
Total Reserved	\$ 1,105	\$ 982	\$ 53,455	\$ 35,316
Unreserved	<u>6,539</u>	<u>45,023</u>	<u> </u>	<u> </u>
Total Fund Balances	<u>\$ 7,644</u>	<u>\$ 46,004</u>	<u>\$ 53,455</u>	<u>\$ 35,316</u>
Total Liabilities and Fund Balances	<u>\$ 20,347</u>	<u>\$ 50,539</u>	<u>\$ 64,952</u>	<u>\$ 47,088</u>

Michigan Underground Storage Tank Financial Assurance Fund		Totals	
1997	1996	1997	1996
\$ 787	\$ 14,796	\$ 81,655	\$ 111,847
4,912	2,685	4,912	2,685
1,088		1,088	
<u>513</u>	<u>491</u>	<u>1,862</u>	<u>5</u>
\$ 7,301	\$ 17,973	\$ 89,518	\$ 115,090
		<u>3,082</u>	<u>510</u>
<u>\$ 7,301</u>	<u>\$ 17,973</u>	<u>\$ 92,600</u>	<u>\$ 115,601</u>
\$ 875	\$ 5,805	\$ 1,355	\$ 5,909
1,155	958	21,571	17,153
55,846	84,938	55,857	84,946
		<u>554</u>	
\$ 57,876	\$ 91,701	\$ 79,337	\$ 108,008
		<u>2,738</u>	
<u>\$ 57,876</u>	<u>\$ 91,701</u>	<u>\$ 82,075</u>	<u>\$ 108,008</u>
\$ 1	\$ 9,323	\$ 1	\$ 9,323
4,453		57,050	
54,433		54,433	
		1,105	982
		<u>858</u>	<u>35,316</u>
\$ 58,887	\$ 9,323	\$ 113,447	\$ 45,621
<u>(109,462)</u>	<u>(83,052)</u>	<u>(102,923)</u>	<u>(38,029)</u>
\$ (50,575)	\$ (73,728)	\$ 10,524	\$ 7,592
<u>\$ 7,301</u>	<u>\$ 17,973</u>	<u>\$ 92,600</u>	<u>\$ 115,601</u>

DEPARTMENT OF ENVIRONMENTAL QUALITY
 Combinina Statement of Revenues, Expenditures, and Changes in Fund Balance
 Special Revenue Funds
Fiscal Years Ended September 30
 (in thousands)

	<u>Environmental Protection</u>		<u>Bottle Deposits Fund</u>	
	<u>Bond Fund</u>			
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
REVENUES				
Taxes	\$	\$	\$	\$
From federal agencies				
Interest and other miscellaneous	<u>1,735</u>	<u>4,037</u>	<u>15,392</u>	<u>35,316</u>
Total Revenues	<u>\$ 1,735</u>	<u>\$ 4,037</u>	<u>\$ 15,392</u>	<u>\$ 35,316</u>
EXPENDITURES				
Current:				
General government	\$	\$	\$	\$
Environmental	<u>40,088</u>	<u>32,895</u>	<u>13,766</u>	<u></u>
Total Expenditures	<u>\$ 40,088</u>	<u>\$ 32,895</u>	<u>\$ 13,766</u>	<u>\$ 0</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (38,353)</u>	<u>\$ (28,858)</u>	<u>\$ 1,626</u>	<u>\$ 35,316</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from bond issues	\$	\$ 1	\$	\$
Operating transfers from other funds			16,625	
Operating transfers to other funds	<u>(7)</u>	<u>(2,650)</u>	<u>(112)</u>	<u></u>
Total Other Financing Sources (Uses)	<u>\$ (7)</u>	<u>\$ (2,649)</u>	<u>\$ 16,513</u>	<u>\$ 0</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (38,360)	\$ (31,507)	\$ 18,139	\$ 35,316
Fund Balances - Beginning of fiscal year	46,004	77,511	35,316	
Equity transfers to other funds				
Fund Balances - End of fiscal year	<u>\$ 7,644</u>	<u>\$ 46,004</u>	<u>\$ 53,455</u>	<u>\$ 35,316</u>

Michigan Underground
Storage Tank Financial

Assurance Fund		Totals	
1997	1996	1997	1996
\$ 60,258	\$ 57,981	\$ 60,258	\$ 57,981
	2		2
<u>6</u>	<u>1,412</u>	<u>17,133</u>	<u>40,766</u>
<u>\$ 60,264</u>	<u>\$ 59,395</u>	<u>\$ 77,391</u>	<u>\$ 98,749</u>
\$ 252	\$ 162	\$ 252	\$ 162
<u>12,293</u>	<u>117,256</u>	<u>66,148</u>	<u>150,152</u>
<u>\$ 12,545</u>	<u>\$ 117,419</u>	<u>\$ 66,400</u>	<u>\$ 150,314</u>
<u>\$ 47,719</u>	<u>\$ (58,023)</u>	<u>\$ 10,991</u>	<u>\$ (51,565)</u>
\$ 1,088	\$ 6,148	\$ 17,714	\$ 6,149
<u>(25,653)</u>	<u>13,270</u>	<u>(25,773)</u>	<u>13,270</u>
<u>\$ (24,565)</u>	<u>(37,522)</u>	<u>\$ (8,059)</u>	<u>(40,171)</u>
<u>\$ (18,104)</u>	<u>\$ (20,753)</u>		
\$ 23,154	\$ (76,128)	\$ 2,932	\$ (72,318)
<u>(73,728)</u>	<u>8,940</u>	<u>7,592</u>	<u>86,451</u>
<u>\$ (50,575)</u>	<u>(6,541)</u>	<u>\$ 10,524</u>	<u>(6,541)</u>
	<u>\$ (73,728)</u>	<u>\$ 7,592</u>	<u>\$ 7,592</u>

DEPARTMENT OF ENVIRONMENTAL QUALITY
 Statement of Changes in Assets and Liabilities
 Environmental Quality Deposits Fund (Note 1.b.)
Fiscal Year Ended September 30
 (in thousands)

	1996			
	Balance October 1, 1995	Additions	Deductions	Balance September 30, 1996
ASSETS				
Current Assets:				
Cash	\$	\$	\$	\$
Equity in Common Cash	1,853	432	184	2,101
Total Assets	\$ 1,853	\$ 432	\$ 184	\$ 2,101
 LIABILITIES				
Current Liabilities:				
Accounts payable and other liabilities	\$ 1,853	\$ 251	\$ 3	\$ 2,101
Total Liabilities	\$ 1,853	\$ 251	\$ 3	\$ 2,101

1997			
Balance October 1, 1996	Additions	Deductions	Balance September 30, 1997
\$ 2,101	\$ 4	\$ 754	\$ 4
<u>2,101</u>	<u>2,069</u>	<u>754</u>	<u>3,415</u>
<u>\$ 2,101</u>	<u>\$ 2,073</u>	<u>\$ 754</u>	<u>\$ 3,419</u>
\$ 2,101	\$ 1,674	\$ 356	\$ 3,419
<u>2,101</u>	<u>1,674</u>	<u>356</u>	<u>3,419</u>
<u>\$ 2,101</u>	<u>\$ 1,674</u>	<u>\$ 356</u>	<u>\$ 3,419</u>

DEPARTMENT OF ENVIRONMENTAL QUALITY
 Schedule of Federal Financial Assistance
Fiscal Years Ended September 30, 1997 and September 30, 1996

<u>Grantor Agency/ Federal Assistance Program Title</u>	<u>Grant/ Contract Number</u>	<u>CFDA * Program Number</u>	<u>Award Period</u>	<u>Amount of Award</u>
<u>U.S. Department of Commerce</u>				
Coastal Zone Management Administration Awards	NA470Z0337	11.419 (1)	10/01/94 - 06/30/96	\$ 2,877,400
Coastal Zone Management Administration Awards	NA570Z0279	11.419 (1)	07/01/95 - 09/30/97	\$ 2,898,194
Coastal Zone Management Administration Awards	NA670Z0346	11.419 (1)	10/01/96 - 06/30/98	\$ 2,258,000
Coastal Zone Management Administration Awards	NA0670Z0346	11.419 (1)	10/01/96 - 06/30/98	\$ 443,000
Coastal Zone Management Administration Awards	43AANC601353	11.419 (1)	10/01/96 - 09/30/97	\$ 24,900
Coastal Zone Management Administration Awards	NA570C0471	11.419 (1)	10/01/95 - 09/30/97	\$ 36,000
Total Coastal Zone Management Administration Awards				
Total U.S. Department of Commerce				
<u>U.S. Department of Defense</u>				
State Memorandum of Agreement Program for the Reimbursement of Technical Services	Cooperative Agreement	12.113	09/30/94 - 09/29/96	\$ 735,087
State Memorandum of Agreement Program for the Reimbursement of Technical Services	MI 96-1	12.113	09/20/96 - 09/19/98	\$ 1,278,400
Total State Memorandum of Agreement Program for the Reimbursement of Technical Services				
Other Federal Financial Assistance: Project ELF (Extremely Low Frequency)	Cooperative Agreement	N/A	10/01/94 - 09/30/95	\$ 32,913
Total U.S. Department of Defense				
<u>U.S. Department of the Interior</u>				
Wildlife Conservation and Appreciation	14-48-0003-96-1068	15.617	09/26/96 - 01/31/98	\$ 28,500
Abandoned Mine Land Reclamation (AMLR) Program	GR199261	15.252	08/05/91 - 12/31/95	\$ 151,300
Abandoned Mine Land Reclamation (AMLR) Program	GR399261	15.252	04/01/93 - 03/31/95	\$ 94,000
Abandoned Mine Land Reclamation (AMLR) Program	GR499261	15.252	05/01/94 - 12/31/95	\$ 105,400
Total Abandoned Mine Land Reclamation (AMLR) Program				
Geological Survey - Research and Data Acquisition	1434HQ96AG01494	15.808	05/01/96 - 04/30/97	\$ 25,420
Geological Survey - Research and Data Acquisition	1434HQ96AG01495	15.808	05/01/96 - 06/30/97	\$ 51,826
Geological Survey - Research and Data Acquisition	1434HQ97AG01735	15.808	04/01/97 - 03/31/98	\$ 45,386
Geological Survey - Research and Data Acquisition	1434HQ96AG-01	15.808	10/01/95 - 09/30/97	\$ 25,420
Geological Survey - Research and Data Acquisition	143495A1365	15.808	04/01/95 - 05/31/96	\$ 15,000
Total Geological Survey - Research and Data Acquisition				
State Partnerships	1445-CA09-97-0008	15.977	04/01/97 - 09/30/98	\$ 40,000
Total U.S. Department of the Interior				
<u>U.S. Environmental Protection Agency</u>				
Air Pollution Control Program Support	A005711-96-2	66.001 (3)	10/01/95 - 09/30/96	\$ 2,652,374
Air Pollution Control Program Support	A005711-97-2	66.001 (3)	10/01/96 - 09/30/97	\$ 2,442,074
Total Air Pollution Control Program Support				
State Indoor Radon Grants	K1995019-06	66.032	10/01/95 - 09/30/96	\$ 185,433
State Indoor Radon Grants	K1995019-07	66.032	10/01/96 - 09/30/97	\$ 265,900
Total State Indoor Radon Grants				
Water Pollution Control - State and Interstate Program Support	M005260-97-0	66.419	10/01/96 - 09/30/97	\$ 300,000
Water Pollution Control - State and Interstate Program Support	M005260-97-2	66.419	10/01/96 - 09/30/97	\$ 2,520,398
Total Water Pollution Control (4)				

This schedule continued on next page.

Amounts Transferred and Expended - Fiscal Year 1996-97				Amounts Transferred and Expended - Fiscal Year 1995-96			
Transferred to Other State Agencies	Directly Expended by Department	Distributed to Subrecipients	Total	Transferred to Other State Agencies	Directly Expended by Department	Distributed to Subrecipients	Total
\$	\$	\$	\$ 0	\$	\$ 417,432	\$ 963,005	\$ 1,380,437
	274,220	515,054	789,274		1,645,945	276,342	1,922,287
	1,470,526	402,614	1,873,140				0
	146,679	224,219	370,898				0
	13,274		13,274				0
	8,792		8,792			18,211	18,211
<u>\$ 0</u>	<u>\$ 1,913,491</u>	<u>\$ 1,141,886</u>	<u>\$ 3,055,377</u>	<u>\$ 0</u>	<u>\$ 2,063,377</u>	<u>\$ 1,257,558</u>	<u>\$ 3,320,935</u>
\$ 0	\$ 1,913,491	\$ 1,141,886	\$ 3,055,377	\$ 0	\$ 2,063,377	\$ 1,257,558	\$ 3,320,935
\$	\$	\$	\$ 0	\$	\$ 410,787	\$	\$ 410,787
	653,233		653,233				0
<u>\$ 0</u>	<u>\$ 653,233</u>	<u>\$ 0</u>	<u>\$ 653,233</u>	<u>\$ 0</u>	<u>\$ 410,787</u>	<u>\$ 0</u>	<u>\$ 410,787</u>
\$	\$	\$	\$ 0	\$	\$ 4,427	\$	\$ 4,427
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,427</u>	<u>\$ 0</u>	<u>\$ 4,427</u>
\$ 0	\$ 653,233	\$ 0	\$ 653,233	\$ 0	\$ 415,214	\$ 0	\$ 415,214
<u>\$ 0</u>	<u>\$ 6,913</u>	<u>\$ 0</u>	<u>\$ 6,913</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$	\$	\$	\$ 0	\$	\$ 23	\$	\$ 23
			0		5,713		5,713
			0		87,829		87,829
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 93,565</u>	<u>\$ 0</u>	<u>\$ 93,565</u>
\$	\$	\$ 25,420	\$ 25,420	\$	\$	\$	\$ 0
		17,620	17,620		20,439		20,439
		1,384	1,384				0
			0		11,191		11,191
			0		15,000		15,000
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 44,424</u>	<u>\$ 44,424</u>	<u>\$ 0</u>	<u>\$ 46,630</u>	<u>\$ 0</u>	<u>\$ 46,630</u>
<u>\$ 0</u>	<u>\$ 828</u>	<u>\$ 5,413</u>	<u>\$ 6,241</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>\$ 0</u>	<u>\$ 828</u>	<u>\$ 5,413</u>	<u>\$ 6,241</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 0	\$ 7,741	\$ 49,837	\$ 57,579	\$ 0	\$ 140,195	\$ 0	\$ 140,195
\$	\$	\$	\$ 0	\$	\$ 2,652,374	\$	\$ 2,652,374
	2,401,740		2,401,740				0
<u>\$ 0</u>	<u>\$ 2,401,740</u>	<u>\$ 0</u>	<u>\$ 2,401,740</u>	<u>\$ 0</u>	<u>\$ 2,652,374</u>	<u>\$ 0</u>	<u>\$ 2,652,374</u>
\$	\$	\$	\$ (2,326)	\$	\$	\$	\$ 0
	(2,326)		(2,326)				0
	160,198	73,127	233,325				0
<u>\$ 0</u>	<u>\$ 157,872</u>	<u>\$ 73,127</u>	<u>\$ 231,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$	\$	\$	\$ 299,919	\$	\$	\$	\$ 0
	299,919		299,919				0
	2,520,398		2,520,398				0
<u>\$ 0</u>	<u>\$ 2,820,317</u>	<u>\$ 0</u>	<u>\$ 2,820,317</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

DEPARTMENT OF ENVIRONMENTAL QUALITY
Schedule of Federal Financial Assistance
Fiscal Years Ended September 30, 1997 and September 30, 1996
Continued

Grantor Agency/ Federal Assistance Program Title	Grant/ Contract Number	CFDA Program Number	*	Award Period	Amount of Award
State Public Water System Supervision	F005293-96	66.432	(2)	10/01/95 - 09/30/96	\$ 3,999,115
State Public Water System Supervision	F005293-97	66.432	(2)	10/01/96 - 09/30/97	\$ 4,730,465
Total State Public Water System Supervision					
Water Pollution Control - Lake Restoration Cooperative Agreements	CL005607-02-0	66.435		07/01/92 - 03/31/98	\$ 57,500
Water Pollution Control - Lake Restoration Cooperative Agreements	S995040-01	66.435		07/01/90 - 06/30/96	\$ 125,306
Water Pollution Control - Lake Restoration Cooperative Agreements	CL995590-01	66.435		06/01/94 - 05/31/95	\$ 20,000
Water Pollution Control - Lake Restoration Cooperative Agreements	CL995063-02	66.435		09/01/93 - 12/31/97	\$ 140,450
Water Pollution Control - Lake Restoration Cooperative Agreements	S-995301-01	66.435		09/01/92 - 09/30/95	\$ 48,000
Water Pollution Control - Lake Restoration Cooperative Agreements	CL995565-01-0	66.435		09/01/93 - 09/30/95	\$ 50,000
Water Pollution Control - Lake Restoration Cooperative Agreements	CL995565-01-0	66.435		09/01/93 - 09/30/97	\$ 50,000
Water Pollution Control - Lake Restoration Cooperative Agreements	CL995942-012	66.435		09/01/93 - 09/30/97	\$ 50,000
Water Pollution Control - Lake Restoration Cooperative Agreements	S-005951-02	66.435		07/01/90 - 09/30/94	\$ 165,000
Total Water Pollution Control - Lake Restoration Cooperative Agreements					
Construction Management Assistance	C-260000-90-3	66.438		10/01/90 - 09/30/96	\$ 2,087,380
Water Quality Management Planning	C6995861-03	66.454		04/01/95 - 03/31/97	\$ 214,071
Water Quality Management Planning	C-6995861-02-1	66.454		03/01/94 - 02/29/96	\$ 207,337
Water Quality Management Planning	C6995861-04-0	66.454		10/01/96 - 05/31/99	\$ 458,951
Total Water Quality Management Planning					
Capitalization Grants for State Revolving Funds	CS-260001-93	66.458	(1)	03/15/93 - 07/31/95	\$ 92,478,548
Capitalization Grants for State Revolving Funds	CS-260001-94	66.458	(1)	08/01/94 - 09/30/97	\$ 53,595,202
Capitalization Grants for State Revolving Funds	CS-260001-95	66.458	(1)	02/03/95 - 03/31/97	\$ 52,961,238
Capitalization Grants for State Revolving Funds	CS-260001-96	66.458	(1)	02/01/96 - 01/31/98	\$ 86,752,116
Capitalization Grants for State Revolving Funds	CS-260001-97	66.458	(1)	01/01/97 - 12/31/98	\$ 26,798,013
Total Capitalization Grants for State Revolving Funds					
Nonpoint Source Implementation Grants	C-9995014-02-0	66.460	(1)	08/01/91 - 09/30/95	\$ 1,479,493
Nonpoint Source Implementation Grants	C9995014-94	66.460	(1)	10/01/93 - 09/30/98	\$ 2,471,395
Nonpoint Source Implementation Grants	C9995014-95	66.460	(1)	10/01/94 - 09/30/99	\$ 3,167,258
Nonpoint Source Implementation Grants	C9995014-96	66.460	(1)	10/01/95 - 09/30/99	\$ 2,882,498
Nonpoint Source Implementation Grants	C9995014-97	66.460	(1)	10/01/96 - 09/30/00	\$ 2,909,963
Nonpoint Source Implementation Grants	C-9995014-92-0	66.460	(1)	08/01/92 - 09/30/96	\$ 1,499,139
Nonpoint Source Implementation Grants	C9995014-93	66.460	(1)	08/01/93 - 10/31/97	\$ 1,383,366
Nonpoint Source Implementation Grants	C9995450-01	66.460	(1)	10/01/93 - 03/31/98	\$ 200,000
Total Nonpoint Source Implementation Grants					
Wetlands Protection - State and Tribal Development Grants	X-995879-01	66.461		10/01/92 - 09/30/94	\$ 156,831
Wetlands Protection - State and Tribal Development Grants	X-995324-01	66.461		10/01/92 - 06/30/95	\$ 91,457
Wetlands Protection - State and Tribal Development Grants	CD985237-01	66.461		08/01/96 - 09/30/98	\$ 376,178
Wetlands Protection - State and Tribal Development Grants	CD985483-01	66.461		09/30/97 - 09/30/99	\$ 319,866
Wetlands Protection - State and Tribal Development Grants	CD995523-01-0	66.461		10/01/94 - 09/30/98	\$ 325,478
Wetlands Protection - State and Tribal Development Grants	CD985010-01-0	66.461		10/01/95 - 09/30/98	\$ 344,090
Total Wetlands Protection - State and Tribal Development Grants					
National Pollutant Discharge Elimination System Related State Program Grants	CP995671-01	66.463		10/01/94 - 09/30/97	\$ 482,983
National Pollutant Discharge Elimination System Related State Program Grants	CP985272-01	66.463		10/01/96 - 09/30/99	\$ 408,383

This schedule continued on next page.

Amounts Transferred and Expended - Fiscal Year 1996-97				Amounts Transferred and Expended - Fiscal Year 1995-96			
Transferred to Other State Agencies	Directly Expended by Department	Distributed to Subrecipients	Total	Transferred to Other State Agencies	Directly Expended by Department	Distributed to Subrecipients	Total
\$	\$ (13,482)	\$	\$ (13,482)	\$	\$	\$	\$ 0
	<u>4,730,465</u>		<u>4,730,465</u>				<u>0</u>
<u>\$ 0</u>	<u>\$ 4,716,983</u>	<u>\$ 0</u>	<u>\$ 4,716,983</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$	\$ 1,147	\$	\$ 1,147	\$	\$ 2,277	\$	\$ 2,277
	19,484		19,484		33,403		33,403
			0			5,100	5,100
	2,174	33,604	35,779		106		106
			0			1,000	1,000
			0		4,912		4,912
	50,000		50,000				0
	318		318		31,787		31,787
			0			15,712	15,712
<u>\$ 0</u>	<u>\$ 73,123</u>	<u>\$ 33,604</u>	<u>\$ 106,728</u>	<u>\$ 0</u>	<u>\$ 72,485</u>	<u>\$ 21,812</u>	<u>\$ 94,297</u>
\$	\$ 0	\$ 0	\$ 0	\$ 0	\$ 608,336	\$ 0	\$ 608,336
\$	\$ 1	\$ 6,772	\$ 6,773	\$	\$ 108,002	\$ 31,607	\$ 139,609
			0		(81)		(81)
	23	114,319	114,342				0
<u>\$ 0</u>	<u>\$ 24</u>	<u>\$ 121,091</u>	<u>\$ 121,115</u>	<u>\$ 0</u>	<u>\$ 107,921</u>	<u>\$ 31,607</u>	<u>\$ 139,528</u>
\$	\$	\$	\$ 0	\$	\$	\$ 37,042,089	\$ 37,042,089
	1,086,384	37,419,489	38,505,873		1,971,946	13,117,383	15,089,329
	1,582,676	44,687,954	46,270,630				0
			0				0
			0				0
<u>\$ 0</u>	<u>\$ 2,669,060</u>	<u>\$ 82,107,443</u>	<u>\$ 84,776,503</u>	<u>\$ 0</u>	<u>\$ 1,971,946</u>	<u>\$ 50,159,472</u>	<u>\$ 52,131,418</u>
\$	\$	\$	\$ 0	\$ 55,022	\$	\$	\$ 55,022
	67,718	425,231	492,949		31,984	618,148	650,132
	8,604	561,622	570,226		236,615	1,005,249	1,241,864
	434,962	780,644	1,215,606	72,925	504,694	319,304	896,923
75,000	315,431	390,051	780,482				0
			0		28,568	150,004	178,572
13,199	46,871		60,070		18,202	70,161	88,363
	<u>41,393</u>	<u>24,387</u>	<u>65,780</u>			<u>80,406</u>	<u>80,406</u>
<u>\$ 88,199</u>	<u>\$ 914,979</u>	<u>\$ 2,181,935</u>	<u>\$ 3,185,113</u>	<u>\$ 127,947</u>	<u>\$ 820,063</u>	<u>\$ 2,243,272</u>	<u>\$ 3,191,282</u>
\$	\$	\$	\$ 0	\$	\$	\$ 33,221	\$ 33,221
			0			71,217	71,217
	65,036		65,036				0
			0				0
	73,809	13,892	87,701		76,525		76,525
	<u>68,684</u>	<u>123,825</u>	<u>192,509</u>		<u>71,800</u>		<u>71,800</u>
<u>\$ 0</u>	<u>\$ 207,529</u>	<u>\$ 137,717</u>	<u>\$ 345,246</u>	<u>\$ 0</u>	<u>\$ 148,325</u>	<u>\$ 104,438</u>	<u>\$ 252,763</u>
\$	\$ 78,277	\$ 33,095	\$ 111,372	\$	\$ 177,941	\$ 20,290	\$ 198,231
	314,244	4,793	319,037				0

DEPARTMENT OF ENVIRONMENTAL QUALITY
Schedule of Federal Financial Assistance
Fiscal Years Ended September 30, 1997 and September 30, 1996
Continued

<u>Grantor Agency/ Federal Assistance Program Title</u>	<u>Grant/ Contract Number</u>	<u>CFDA * Program Number</u>	<u>Award Period</u>	<u>Amount of Award</u>
National Pollutant Discharge Elimination System Related State Program Grants	CP-995846-02-0	66.463	10/01/93 - 09/30/96	\$ 450,000
National Pollutant Discharge Elimination System Related State Program Grants	CP995671-02	66.463	10/01/95 - 09/30/97	\$ 362,000
Total National Pollutant Discharge Elimination System Related State Program Grants				
Water Pollution Control - Research, Development, and Demonstration	GL-995960-2	66.505	10/01/93 - 03/31/96	\$ 200,000
Water Pollution Control - Research, Development, and Demonstration	CP-995846-01-0	66.505	10/01/92 - 09/30/95	\$ 452,581
Water Pollution Control - Research, Development, and Demonstration	GL-995696-01-0	66.505	10/01/94 - 12/31/95	\$ 76,680
Water Pollution Control - Research, Development, and Demonstration	X-1985322-01-0	66.505	09/01/96 - 08/31/97	\$ 100,000
Water Pollution Control - Research, Development, and Demonstration	X-995599-01-0	66.505	07/01/94 - 04/30/96	\$ 45,000
Water Pollution Control - Research, Development, and Demonstration	X995379-01-3	66.505	10/01/93 - 09/30/96	\$ 1,220,950
Water Pollution Control - Research, Development, and Demonstration	X985326-01	66.505	10/01/96 - 09/30/98	\$ 427,000
Water Pollution Control - Research, Development, and Demonstration	GL995381-02	66.505	10/01/96 - 09/30/97	\$ 70,000
Water Pollution Control - Research, Development, and Demonstration	GL-995381-01-5	66.505	08/18/93 - 09/30/96	\$ 212,760
Water Pollution Control - Research, Development, and Demonstration	X995620-01-1	66.505	10/01/94 - 09/30/97	\$ 630,000
Water Pollution Control - Research, Development, and Demonstration	GL-995415-01-0	66.505	10/01/93 - 09/30/95	\$ 150,000
Water Pollution Control - Research, Development, and Demonstration	GL-995519-01-0	66.505	03/01/94 - 09/30/95	\$ 35,000
Water Pollution Control - Research, Development, and Demonstration	X-995760-01-0	66.505	10/01/92 - 09/30/95	\$ 80,000
Water Pollution Control - Research, Development, and Demonstration	X-995605-01	66.505	10/01/94 - 09/30/97	\$ 260,000
Water Pollution Control - Research, Development, and Demonstration	X985139-01	66.505	10/01/95 - 09/30/98	\$ 560,000
Water Pollution Control - Research, Development, and Demonstration	C-9995450-01-0	66.505	10/01/93 - 11/30/97	\$ 200,000
Water Pollution Control - Research, Development, and Demonstration	CD985010-01-0	66.505	10/01/95 - 09/30/98	\$ 10,000
Water Pollution Control - Research, Development, and Demonstration	X824812-01	66.505	10/01/95 - 09/30/97	\$ 81,250
Water Pollution Control - Research, Development, and Demonstration	NP-985073-01-0	66.505	10/01/95 - 09/30/97	\$ 109,985
Water Pollution Control - Research, Development, and Demonstration	X995694-01-1	66.505	10/01/94 - 09/30/96	\$ 132,996
Water Pollution Control - Research, Development, and Demonstration	X-985169-01-0	66.505	10/01/95 - 09/30/96	\$ 50,000
Water Pollution Control - Research, Development, and Demonstration	X985170-01	66.505	10/01/95 - 09/30/97	\$ 50,000
Water Pollution Control - Research, Development, and Demonstration	GL985207-01-0	66.505	10/01/95 - 09/30/98	\$ 125,000
Water Pollution Control - Research, Development, and Demonstration	M-005260-95-2	66.505	10/01/94 - 09/30/95	\$ 324,311
Water Pollution Control - Research, Development, and Demonstration	X-995182-03-0	66.505	07/01/93 - 01/01/96	\$ 1,650,000
Total Water Pollution Control - Research, Development, and Demonstration				
Environmental Protection Consolidated Grants- Program Support	M005260-96-5	66.600 (3)	10/01/95 - 09/30/97	\$ 525,630
Environmental Protection Consolidated Grants- Program Support	C6985450-01-0	66.600 (3)	10/01/96 - 09/30/97	\$ 162,390
Environmental Protection Consolidated Grants- Program Support	M005260-96-5	66.600 (3)	10/01/95 - 09/30/96	\$ 300,000
Environmental Protection Consolidated Grants- Program Support	M005260-96-5	66.600 (3)	10/01/95 - 09/30/96	\$ 2,313,148
Total Environmental Protection Consolidated Grants (4)				
Surveys, Studies, Investigations, and Special Purpose Grants	X985445-01-0	66.606	04/21/97 - 10/31/98	\$ 280,000
Surveys, Studies, Investigations, and Special Purpose Grants	NP985363-01-0	66.606	10/01/96 - 12/31/97	\$ 72,000
Total Surveys, Studies, Investigations, and Special Purpose Grants				
Training and Fellowships for the EPA	T985246-01-0	66.607	10/01/96 - 09/30/98	\$ 86,500
Pollution Prevention Grants Program	NP985073-02	66.708	10/01/96 - 09/30/98	\$ 90,000
Pollution Prevention Grants Program	NP985073-01	66.708	10/01/95 - 03/31/98	\$ 109,985
Pollution Prevention Grants Program	NP985073-03	66.708	10/01/97 - 09/30/99	\$ 92,000
Total Pollution Prevention Grants Program				
Hazardous Waste Management State Program Support	D005712-97-1	66.801 (1)	10/01/96 - 09/30/97	\$ 3,292,669
Hazardous Waste Management State Program Support	D-005712-96-3	66.801 (1)	10/01/95 - 09/30/96	\$ 3,720,121
Total Hazardous Waste Management State Program Support				

This schedule continued on next page.

Amounts Transferred and Expended - Fiscal Year 1996-97				Amounts Transferred and Expended - Fiscal Year 1995-96			
Transferred to Other State Agencies	Directly Expended by Department	Distributed to Subrecipients	Total	Transferred to Other State Agencies	Directly Expended by Department	Distributed to Subrecipients	Total
\$	\$	\$	\$ 0	\$	\$	\$ 345,903	\$ 345,903
	2,795	92,695	95,490		229,168	36,146	265,314
\$ 0	\$ 395,317	\$ 130,583	\$ 525,899	\$ 0	\$ 407,109	\$ 402,339	\$ 809,448
\$	\$ (143)	\$	\$ (143)	\$	\$ 13,738	\$	\$ 13,738
			0			2,899	2,899
			0		21,963		21,963
			0		1,293		1,293
			0				0
	(625)		(625)		46,352	89,715	136,067
	86,519	45,939	132,458				0
	70,000		70,000				0
			0		36,651		36,651
	14	74,806	74,820		443	71,487	71,930
			0		109,525		109,525
			0		(1,363)		(1,363)
			0		4,785		4,785
	48,323		48,323		27,933		27,933
	195,775		195,775		243,881		243,881
			0		40,573	29,939	70,512
			0				0
	10,296		10,296		70,954		70,954
			0		42,065		42,065
			0			47,062	47,062
			0		50,000		50,000
	11,947		11,947		33,073		33,073
	114,962		114,962				0
			0		3,019		3,019
			0		(1,529)	6,145	4,616
\$ 0	\$ 537,067	\$ 120,745	\$ 657,812	\$ 0	\$ 743,356	\$ 247,247	\$ 990,603
\$	\$ 81,089	\$	\$ 81,089	\$	\$ 443,314	\$	\$ 443,314
	160,403		160,403				0
	(221)		(221)		235,405		235,405
			0		2,313,148		2,313,148
\$ 0	\$ 241,271	\$ 0	\$ 241,271	\$ 0	\$ 2,991,867	\$ 0	\$ 2,991,867
\$	\$ 115,155	\$	\$ 115,155	\$	\$	\$	\$ 0
	68,386		68,386				0
\$ 0	\$ 183,541	\$ 0	\$ 183,541	\$ 0	\$ 0	\$ 0	\$ 0
\$ 0	\$ 52,448	\$ 0	\$ 52,448	\$ 0	\$ 0	\$ 0	\$ 0
\$	\$ 46,154	\$	\$ 46,154	\$	\$	\$	\$ 0
	59,734		59,734				0
			0				0
\$ 0	\$ 105,889	\$ 0	\$ 105,889	\$ 0	\$ 0	\$ 0	\$ 0
\$ 23,925	\$ 3,066,601	\$	\$ 3,090,526	\$	\$	\$	\$ 0
	26,170		26,170	152,191	3,481,903		3,634,094
\$ 23,925	\$ 3,092,771	\$ 0	\$ 3,116,696	\$ 152,191	\$ 3,481,903	\$ 0	\$ 3,634,094

DEPARTMENT OF ENVIRONMENTAL QUALITY
Schedule of Federal Financial Assistance
Fiscal Years Ended September 30, 1997 and September 30, 1996
Continued

Grantor Agency/ Federal Assistance Program Title	Grant/ Contract Number	CFDA * Program Number	Award Period	Amount of Award
Superfund State Site - Specific Cooperative Agreements	V995088-01	66.802 (3)	12/15/90 - 06/30/99	\$ 327,000
Superfund State Site - Specific Cooperative Agreements	V985232-01	66.802 (3)	05/01/96 - 12/31/99	\$ 2,529,865
Superfund State Site - Specific Cooperative Agreements	V005934-01	66.802 (3)	06/01/87 - 09/30/96	\$ 1,440,000
Superfund State Site - Specific Cooperative Agreements	V005953-01	66.802 (3)	10/01/89 - 03/31/97	\$ 1,020,738
Superfund State Site - Specific Cooperative Agreements	V995105-01	66.802 (3)	10/01/90 - 12/31/97	\$ 840,924
Superfund State Site - Specific Cooperative Agreements	V005933-01	66.802 (3)	06/01/87 - 12/31/96	\$ 1,302,405
Superfund State Site - Specific Cooperative Agreements	V995884-01	66.802 (3)	10/01/92 - 03/31/98	\$ 90,000
Superfund State Site - Specific Cooperative Agreements	V995884-01	66.802 (3)	10/01/92 - 03/31/98	\$ 709,905
Superfund State Site - Specific Cooperative Agreements	V005932-01	66.802 (3)	10/01/93 - 06/30/97	\$ 21,100
Superfund State Site - Specific Cooperative Agreements	V005932-01	66.802 (3)	10/01/93 - 06/30/97	\$ 1,158,132
Superfund State Site - Specific Cooperative Agreements	V995749-01	66.802 (3)	01/01/95 - 12/31/99	\$ 1,373,127
Superfund State Site - Specific Cooperative Agreements	V005793-01	66.802 (3)	10/01/84 - 09/30/97	\$ 2,379,656
Superfund State Site - Specific Cooperative Agreements	V005950-01	66.802 (3)	07/01/93 - 12/31/98	\$ 702,275
Superfund State Site - Specific Cooperative Agreements	V005844-01-H	66.802 (3)	04/01/85 - 09/30/98	\$ 5,267,911
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	05/05/96 - 09/30/98	\$ 40,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	09/15/91 - 09/30/99	\$ 33,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	09/15/91 - 09/30/98	\$ 80,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	10/01/93 - 09/30/98	\$ 85,846
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	12/31/92 - 09/30/98	\$ 85,000
Superfund State Site P - Specific Cooperative Agreements	v995258-01	66.802 (3)	10/01/97 - 09/30/99	\$ 20,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	09/15/91 - 09/30/98	\$ 15,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	10/01/93 - 09/30/99	\$ 100,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	04/09/92 - 09/30/99	\$ 85,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	09/25/92 - 09/30/98	\$ 60,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	08/28/92 - 09/30/99	\$ 50,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	04/25/92 - 09/30/99	\$ 120,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	04/09/92 - 09/30/99	\$ 82,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	01/01/95 - 09/30/98	\$ 40,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	09/15/91 - 09/30/98	\$ 95,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	09/15/91 - 09/30/98	\$ 30,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	09/25/92 - 09/30/98	\$ 95,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	10/01/96 - 09/30/98	\$ 40,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	09/15/91 - 09/30/98	\$ 32,500
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	01/30/93 - 09/30/98	\$ 25,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	09/15/91 - 09/30/98	\$ 95,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	08/21/95 - 09/30/99	\$ 45,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	04/09/92 - 09/30/98	\$ 120,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	09/15/91 - 06/30/98	\$ 55,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	09/15/91 - 09/30/99	\$ 86,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	09/01/92 - 09/30/98	\$ 60,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	10/01/96 - 09/30/98	\$ 1,500
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	04/09/92 - 09/30/99	\$ 135,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	03/19/93 - 09/30/98	\$ 55,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	04/09/92 - 09/30/99	\$ 220,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	09/30/91 - 09/30/99	\$ 45,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	11/02/92 - 09/30/99	\$ 107,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	11/30/93 - 09/30/99	\$ 40,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	04/09/92 - 09/30/99	\$ 105,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	11/02/92 - 09/30/99	\$ 50,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	09/30/91 - 09/30/99	\$ 106,600
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	04/09/92 - 09/30/99	\$ 55,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	03/31/93 - 09/30/98	\$ 40,000

This schedule continued on next page.

Amounts Transferred and Expended - Fiscal Year 1996-97				Amounts Transferred and Expended - Fiscal Year 1995-96				
Transferred to Other State Agencies	Directly Expended by Department	Distributed to Subrecipients	Total	Transferred to Other State Agencies	Directly Expended by Department	Distributed to Subrecipients	Total	
\$	\$	19,090	\$	19,090	\$	(4,594)	\$	(4,594)
	376,212		376,212		2,682		2,682	
	70,729		70,729		133,600		133,600	
	27,109		27,109		277,092		277,092	
	59,316		59,316		129,015		129,015	
	42,008		42,008		44,893		44,893	
	17		17		1,777		1,777	
	204,184		204,184		225,909		225,909	
	24		24				0	
			0		76,500		76,500	
	221,666		221,666		159,118		159,118	
	10,546		10,546		235,909		235,909	
	35,861		35,861		195,100		195,100	
	444,169		444,169		409,558		409,558	
	16,786		16,786		254		254	
	6,691		6,691		3,227		3,227	
	7,329		7,329		48		48	
	20,285		20,285		11,937		11,937	
	726		726		38,201		38,201	
			0				0	
	1,652		1,652		1,310		1,310	
	19,577		19,577		29,513		29,513	
	10,732		10,732		11,209		11,209	
	3,009		3,009		8,607		8,607	
	8,664		8,664		6,975		6,975	
	22,308		22,308		20,339		20,339	
	3,638		3,638		10,481		10,481	
	2,682		2,682		16,262		16,262	
	13,274		13,274		14,766		14,766	
	202		202		7,246		7,246	
	13,502		13,502		6,971		6,971	
	6,673		6,673				0	
	1,419		1,419		659		659	
	1,302		1,302		4,767		4,767	
	8,561		8,561		12,066		12,066	
	9,970		9,970		15,015		15,015	
	6,632		6,632		16,802		16,802	
	4,180		4,180		7,304		7,304	
	2,516		2,516		4,430		4,430	
	7,696		7,696		5,056		5,056	
	1,425		1,425				0	
	24,694		24,694		31,049		31,049	
	9,791		9,791		5,792		5,792	
	43,951		43,951		37,987		37,987	
	88		88		296		296	
	4,867		4,867		14,582		14,582	
	9,519		9,519		4,171		4,171	
	8,215		8,215		13,284		13,284	
	1,523		1,523		4,187		4,187	
	14,403		14,403		13,001		13,001	
	5,755		5,755		7,012		7,012	
	4,733		4,733		2,153		2,153	

DEPARTMENT OF ENVIRONMENTAL QUALITY
Schedule of Federal Financial Assistance
Fiscal Years Ended September 30, 1997 and September 30, 1996
Continued

Grantor Agency/ Federal Assistance Program Title	Grant/ Contract Number	CFDA * Program Number	Award Period	Amount of Award
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	04/09/92 - 09/30/99	\$ 90,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	09/25/92 - 09/30/98	\$ 56,788
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	06/01/93 - 09/30/99	\$ 30,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	06/15/93 - 09/30/99	\$ 95,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	08/21/95 - 09/30/99	\$ 55,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	10/14/92 - 09/30/99	\$ 105,000
Superfund State Site P - Specific Cooperative Agreements	V995258-01	66.802 (3)	11/30/93 - 09/30/96	\$ 4,154
Superfund State Site N - Specific Cooperative Agreements	V995259-01	66.802 (3)	09/25/92 - 09/30/98	\$ 20,000
Superfund State Site N - Specific Cooperative Agreements	V995259-01	66.802 (3)	03/31/97 - 09/30/98	\$ 10,000
Superfund State Site N - Specific Cooperative Agreements	V995259-01	66.802 (3)	09/15/91 - 12/31/98	\$ 79,067
Superfund State Site N - Specific Cooperative Agreements	V995259-01	66.802 (3)	09/25/92 - 12/31/95	\$ 25,000
Superfund State Site N - Specific Cooperative Agreements	V995259-01	66.802 (3)	09/25/92 - 09/30/93	\$ 30,000
Superfund State Site N - Specific Cooperative Agreements	V995259-01	66.802 (3)	09/25/92 - 09/30/98	\$ 85,000
Superfund State Site N - Specific Cooperative Agreements	V995259-01	66.802 (3)	09/15/91 - 09/30/98	\$ 35,000
Superfund State Site B - Specific Cooperative Agreements	V995260-01	66.802 (3)	02/01/94 - 09/30/96	\$ 4,493
Superfund State Site B - Specific Cooperative Agreements	V995260-01	66.802 (3)	11/30/93 - 09/30/97	\$ 10,000
Superfund State Site B - Specific Cooperative Agreements	V995260-01	66.802 (3)	02/01/94 - 09/30/98	\$ 5,000
Superfund State Site B - Specific Cooperative Agreements	V995260-01	66.802 (3)	05/30/93 - 03/31/98	\$ 38,066
Superfund State Site B - Specific Cooperative Agreements	V995260-01	66.802 (3)	06/30/94 - 03/31/98	\$ 10,000
Superfund State Site B - Specific Cooperative Agreements	V995260-01	66.802 (3)	08/28/92 - 09/30/97	\$ 17,362
Superfund State Site B - Specific Cooperative Agreements	V995260-01	66.802 (3)	09/15/91 - 09/30/97	\$ 35,000
Superfund State Site B - Specific Cooperative Agreements	V995260-01	66.802 (3)	10/08/92 - 09/30/98	\$ 10,000
Superfund State Site B - Specific Cooperative Agreements	V995260-01	66.802 (3)	09/25/92 - 09/30/97	\$ 10,000
Superfund State Site B - Specific Cooperative Agreements	V995260-01	66.802 (3)	11/30/93 - 12/31/98	\$ 15,000
Superfund State Site B - Specific Cooperative Agreements	V995260-01	66.802 (3)	06/01/96 - 09/30/97	\$ 3,000
Superfund State Site B - Specific Cooperative Agreements	V995260-01	66.802 (3)	09/15/91 - 09/30/97	\$ 35,100
Superfund State Site B - Specific Cooperative Agreements	V995260-01	66.802 (3)	09/15/91 - 03/31/98	\$ 10,000
Superfund State Site B - Specific Cooperative Agreements	V995260-01	66.802 (3)	08/15/95 - 09/30/98	\$ 25,000
Superfund State Site B - Specific Cooperative Agreements	V995260-01	66.802 (3)	06/19/96 - 09/30/97	\$ 4,000
Superfund State Site B - Specific Cooperative Agreements	V995260-01	66.802 (3)	09/15/91 - 03/31/98	\$ 10,000
Superfund State Site B - Specific Cooperative Agreements	V995260-01	66.802 (3)	01/01/95 - 03/30/98	\$ 5,000
Superfund State Site B - Specific Cooperative Agreements	V995260-01	66.802 (3)	09/25/92 - 09/30/98	\$ 15,000
Superfund State Site B - Specific Cooperative Agreements	V995260-01	66.802 (3)	02/04/94 - 03/31/96	\$ 10,000
Superfund State Site B - Specific Cooperative Agreements	V995260-01	66.802 (3)	03/31/93 - 09/30/98	\$ 15,000
Superfund State Site B - Specific Cooperative Agreements	V995260-01	66.802 (3)	09/15/91 - 09/30/97	\$ 60,000
Superfund State Site B - Specific Cooperative Agreements	V995260-01	66.802 (3)	09/25/92 - 03/31/98	\$ 25,000
Superfund State Site B - Specific Cooperative Agreements	V995260-01	66.802 (3)	09/15/91 - 09/30/98	\$ 30,000
Superfund State Site B - Specific Cooperative Agreements	V995260-01	66.802 (3)	09/25/92 - 03/31/98	\$ 15,000
Superfund State Site B - Specific Cooperative Agreements	V995260-01	66.802 (3)	09/01/94 - 09/30/98	\$ 15,000
Superfund State Site B - Specific Cooperative Agreements	V995260-01	66.802 (3)	09/25/91 - 12/31/96	\$ 50,000
Superfund State Site R - Specific Cooperative Agreements	V995261-01	66.802 (3)	05/01/94 - 12/31/95	\$ 13,500
Superfund State Site R - Specific Cooperative Agreements	V995261-01	66.802 (3)	01/03/95 - 09/30/99	\$ 20,000
Superfund State Site R - Specific Cooperative Agreements	V995261-01	66.802 (3)	10/01/94 - 09/30/99	\$ 36,000
Superfund State Site R - Specific Cooperative Agreements	V995261-01	66.802 (3)	06/31/93 - 09/30/99	\$ 55,000
Superfund State Site R - Specific Cooperative Agreements	V995261-01	66.802 (3)	09/15/91 - 09/30/99	\$ 80,400
Superfund State Site R - Specific Cooperative Agreements	V995261-01	66.802 (3)	03/31/92 - 09/30/99	\$ 102,800
Superfund State Site L - Specific Cooperative Agreements	V995339-01	66.802 (3)	09/01/97 - 09/30/99	\$ 35,000
Superfund State Site L - Specific Cooperative Agreements	V995339-01	66.802 (3)	04/01/92 - 09/30/96	\$ 62,000
Superfund State Site L - Specific Cooperative Agreements	V995339-01	66.802 (3)	05/19/93 - 09/30/98	\$ 35,000
Superfund State Site L - Specific Cooperative Agreements	V995339-01	66.802 (3)	05/30/93 - 09/30/96	\$ 12,000
Superfund State Site L - Specific Cooperative Agreements	V995339-01	66.802 (3)	04/01/94 - 09/30/98	\$ 10,000
Superfund State Site L - Specific Cooperative Agreements	V995339-01	66.802 (3)	10/01/92 - 09/30/98	\$ 5,000
Superfund State Site L - Specific Cooperative Agreements	V995339-01	66.802 (3)	08/21/95 - 09/30/98	\$ 15,000

This schedule continued on next page.

Amounts Transferred and Expended - Fiscal Year 1996-97				Amounts Transferred and Expended - Fiscal Year 1995-96				
Transferred to Other State Agencies	Directly Expended by Department	Distributed to Subrecipients	Total	Transferred to Other State Agencies	Directly Expended by Department	Distributed to Subrecipients	Total	
\$	\$	7,504	\$	\$	7,504	\$	\$	13,782
		47			47			14,118
		9,696			9,696			542
		13,413			13,413			17,306
		23,865			23,865			14,088
		29,121			29,121			17,665
		.			0			0
		5,645			5,645			64
		4,253			4,253			0
		.			0			3,908
		16,073			16,073			121
		(3)			(3)			0
		697			697			9,153
		.			0			7,879
		19,987			19,987			3,998
		251			251			9,270
		5,559			5,559			0
		.			0			632
		207			207			0
		3,207			3,207			0
		.			0			32
		58			58			2,254
		.			0			110
		270			270			0
		.			0			1,497
		145			145			0
		1,661			1,661			0
		.			0			0
		1,428			1,428			0
		1,297			1,297			790
		2,972			2,972			0
		.			0			0
		475			475			0
		.			0			4,300
		6,258			6,258			0
		14,169			14,169			800
		4,391			4,391			1,277
		26,533			26,533			18,635
		.			0			6,176
		21,062			21,062			27,086
		.			0			0
		3,214			3,214			0
		295			295			139
		.			0			0
		0			0			345
								651
								0

DEPARTMENT OF ENVIRONMENTAL QUALITY
 Schedule of Federal Financial Assistance
Fiscal Years Ended September 30, 1997 and September 30, 1996
 Continued

<u>Grantor Agency/ Federal Assistance Program Title</u>	<u>Grant/ Contract Number</u>	<u>CFDA * Program Number</u>	<u>Award Period</u>	<u>Amount of Award</u>
Superfund State Site L - Specific Cooperative Agreements	V995339-01	66.802 (3)	04/18/94 - 09/30/96	\$ 20,000
Superfund State Site L - Specific Cooperative Agreements	V995339-01	66.802 (3)	06/30/94 - 09/30/97	\$ 30,000
Superfund State Site L - Specific Cooperative Agreements	V995339-01	66.802 (3)	10/01/93 - 12/31/97	\$ 25,000
Superfund State Site L - Specific Cooperative Agreements	V995339-01	66.802 (3)	04/01/92 - 09/30/97	\$ 62,940
Superfund State Site L - Specific Cooperative Agreements	V995339-01	66.802 (3)	08/29/96 - 09/30/98	\$ 10,000
Superfund State Site L - Specific Cooperative Agreements	V995339-01	66.802 (3)	04/19/96 - 12/31/97	\$ 15,000
Superfund State Site L - Specific Cooperative Agreements	V995339-01	66.802 (3)	04/01/92 - 09/30/96	\$ 15,000
Total Superfund State Site L - Specific Cooperative Agreements				
State Underground Storage Tanks Program	L005890-97	66.804	10/01/96 - 09/30/97	\$ 186,677
State Underground Storage Tanks Program	L005890-96-3	66.804	10/01/95 - 09/30/96	\$ 234,900
Total State Underground Storage Tanks Program				
Leaking Underground Storage Tank Trust Fund Program (B)	L-995697-01	66.805	10/01/94 - 09/30/97	\$ 300,976
Leaking Underground Storage Tank Trust Fund Program (B)	L005936-05-3	66.805	12/01/95 - 12/31/96	\$ 1,325,195
Leaking Underground Storage Tank Trust Fund Program (B)	LS005936-06	66.805	01/01/97 - 12/31/97	\$ 1,506,700
Leaking Underground Storage Tank Trust Fund Program (B)	L-005936-04	66.805	01/01/95 - 02/28/96	\$ 1,900,000
Total Leaking Underground Storage Tank Trust Fund Program				
Solid Waste Management Assistance (B)	X1985322-01	66.808	09/01/96 - 02/28/98	\$ 100,000
Superfund State Core Program Cooperative Agreements	V005769-01	66.809	09/01/89 - 09/30/97	\$ 6,202,019
Pollution Prevention Grants Program	NP995703-01	66.900	10/01/95 - 09/30/97	\$ 100,000
Total U.S. Environmental Protection Agency				
<u>Nuclear Regulatory Commission</u>				
Radiation Control - Training Assistance and Advisory Counseling (K,L,M)	NRC-30-83-644	77.001	01/01/83 - 12/31/97	\$ 10,000
Total Nuclear Regulatory Commission				
<u>Federal Emergency Management Agency</u>				
Civil Defense - State and Local Emergency Management Assistance	EMC-97-PA-1331	83.503	10/01/96 - 09/30/97	\$ 164,021
Civil Defense - State and Local Emergency Management Assistance (A)	EMC-96-PA-1325	83.503	10/01/95 - 09/30/96	\$ 162,020
Total Civil Defense - State and Local Emergency Management Assistance				
Flood Mitigation Assistance	EMW-96-CA-0097	83.536	12/31/96 - 07/31/97	\$ 90,000
Total Federal Emergency Management Agency				
Total Financial Assistance				

* CFDA is defined as *Catalog of Federal Domestic Assistance*.

- (1) Major program, as defined by the Single Audit Act for both fiscal years 1995-96 and 1996-97.
- (2) Major program, as defined by the Single Audit Act for only fiscal year 1996-97.
- (3) Major program, as defined by the Single Audit Act for only fiscal year 1995-96.
- (4) The Consolidated Grants Program is an alternative application process which allows agencies to submit a single application for two or more pollution control programs, including CFDA #66.419, Water Pollution Control - State and Interstate Program Support.

Amounts Transferred and Expended - Fiscal Year 1996-97				Amounts Transferred and Expended - Fiscal Year 1995-96			
Transferred to Other State Agencies	Directly Expended by Department	Distributed to Subrecipients	Total	Transferred to Other State Agencies	Directly Expended by Department	Distributed to Subrecipients	Total
\$	\$	\$	\$ 0	\$	\$ 242	\$	\$ 242
	2,192		2,192		17,383		17,383
	2,839		2,839		9,621		9,621
	4,693		4,693		11,791		11,791
	1,323		1,323				0
			0				0
			0				0
<u>\$ 0</u>	<u>\$ 2,074,699</u>	<u>\$ 0</u>	<u>\$ 2,074,699</u>	<u>\$ 0</u>	<u>\$ 2,492,045</u>	<u>\$ 0</u>	<u>\$ 2,492,045</u>
\$	\$ 186,610	\$	\$ 186,610	\$	\$	\$	\$ 0
			0		72,400		72,400
<u>\$ 0</u>	<u>\$ 186,610</u>	<u>\$ 0</u>	<u>\$ 186,610</u>	<u>\$ 0</u>	<u>\$ 72,400</u>	<u>\$ 0</u>	<u>\$ 72,400</u>
\$	\$ 34,811	\$	\$ 34,811	\$	\$ 24,045	\$	\$ 24,045
			0		1,325,195		1,325,195
8,974	989,519		998,492				0
			0		200,613		200,613
<u>\$ 8,974</u>	<u>\$ 1,024,329</u>	<u>\$ 0</u>	<u>\$ 1,033,303</u>	<u>\$ 0</u>	<u>\$ 1,549,853</u>	<u>\$ 0</u>	<u>\$ 1,549,853</u>
\$ 0	\$ 90,018	\$ 0	\$ 90,018	\$ 0	\$ 0	\$ 0	\$ 0
\$ 0	\$ 724,566	\$ 0	\$ 724,566	\$ 2,884	\$ 887,983	\$ 0	\$ 890,867
\$ 0	\$ 65,946	\$ 0	\$ 65,946	\$ 0	\$ 32,284	\$ 0	\$ 32,284
<u>\$ 121,098</u>	<u>\$ 22,736,098</u>	<u>\$ 84,906,245</u>	<u>\$ 107,763,441</u>	<u>\$ 283,022</u>	<u>\$ 19,040,250</u>	<u>\$ 53,210,187</u>	<u>\$ 72,533,458</u>
\$ 0	\$ 10,000	\$ 0	\$ 10,000	\$ 0	\$ 0	\$ 0	\$ 0
<u>\$ 0</u>	<u>\$ 10,000</u>	<u>\$ 0</u>	<u>\$ 10,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$	\$ 164,021	\$	\$ 164,021	\$	\$	\$	\$ 0
			0		162,020		162,020
<u>\$ 0</u>	<u>\$ 164,021</u>	<u>\$ 0</u>	<u>\$ 164,021</u>	<u>\$ 0</u>	<u>\$ 162,020</u>	<u>\$ 0</u>	<u>\$ 162,020</u>
\$ 0	\$ 35,821	\$ 0	\$ 35,821	\$ 0	\$ 54,179	\$ 0	\$ 54,179
<u>\$ 0</u>	<u>\$ 199,842</u>	<u>\$ 0</u>	<u>\$ 199,842</u>	<u>\$ 0</u>	<u>\$ 216,199</u>	<u>\$ 0</u>	<u>\$ 216,199</u>
<u>\$ 121,098</u>	<u>\$ 25,520,406</u>	<u>\$ 86,097,968</u>	<u>\$ 111,739,471</u>	<u>\$ 283,022</u>	<u>\$ 21,875,235</u>	<u>\$ 54,467,745</u>	<u>\$ 76,626,001</u>

SUPPLEMENTAL INFORMATION

DEPARTMENT OF ENVIRONMENTAL QUALITY
Schedule of Questioned Costs
Fiscal Years Ended September 30, 1997 and 1996

<u>Program or Grant/Contract Number</u>	<u>Finding</u>	<u>Questioned Costs (A)</u>
<u>U.S. Department of Commerce</u>		
1. Coastal Zone Management Administration Awards CFDA #11.419 NA570Z0279	DEQ used budget estimates to allocate payroll costs. (Finding 6.b.)	\$ 7,848
2. Coastal Zone Management Administration Awards CFDA #11.419 NA670Z0346	DEQ used budget estimates to allocate payroll costs. (Finding 6.b.)	3,864
3. Coastal Zone Management Administration Awards CFDA #11.419 NA670Z0346	DEQ charged an expenditure related to another federal department and grant.	433
<u>U.S. Environmental Protection Agency</u>		
4. Water Pollution Control - State and Interstate Program Support CFDA #66.419 M005260-96-5	DEQ used budget estimates to allocate payroll costs. (Finding 6.c.)	Not Determinable (B)
5. Capitalization Grants for State Revolving Funds CFDA #66.458 CS-260001-94 CS-260001-95	DEQ claimed costs for services performed to develop another federal program. (Finding 9)	58,943
6. Capitalization Grants for State Revolving Funds CFDA #66.458 CS-260001-94 CS-260001-95	DEQ used budget estimates to allocate payroll costs. (Finding 6.a.)	Not Determinable (B)
7. Superfund State Site - Specific Cooperative Agreements CFDA #66.802 Grant V005950-01	Supporting documentation of grant expenditures did not agree with amount billed resulting in overbilling.	1,428
8. Superfund State Site - Specific Cooperative Agreements CFDA #66.802 Grant V995884-01	Supporting documentation of grant expenditures did not agree with amount billed resulting in underbilling.	(605)
9. Superfund State Site - Specific Cooperative Agreements CFDA #66.802 Grant V005953-01	Supporting documentation of grant expenditures did not agree with amount billed resulting in overbilling.	52,957
10. Various	Terminal leave payments were directly charged to federal programs without proper approval from cognizant agency. (Finding 7)	76,980

* This schedule continued on next page.

DEPARTMENT OF ENVIRONMENTAL QUALITY
 Schedule of Questioned Costs
Fiscal Years Ended September 30, 1997 and 1996
Continued

Program or Grant/Contract Number	Finding	Questioned Costs (A)
11. Various	DEQ included incorrect costs in its indirect cost rate computation. As a result, DEQ erroneously applied a higher indirect cost rate to its federal programs. (Finding 8)	\$ 163,000
Questioned Costs		\$ 365,453
Negative Questioned Costs		\$ (605)

CFDA is defined as *Catalog of Federal Assistance*.

- (A) Questioned Costs are defined as amounts potentially due to the federal government because of reimbursements for unallowable, undocumented, unapproved, or unreasonable costs, or amounts potentially due from the federal government for reimbursements that were not claimed or were claimed for less than the eligible amount. Amounts potentially due from the federal government are presented as (negative) questioned costs.
- (B) The total amount reported is conservative because of the various items for which the amount of questioned costs is not determinable.

DEPARTMENT OF ENVIRONMENTAL QUALITY
Schedule of Immaterial Noncompliance
Fiscal Years Ended September 30, 1997 and 1996

<u>Program or Grant/Contract Number</u>	<u>Finding/Noncompliance</u>
<u>U.S. Environmental Protection Agency</u>	
Hazardous Waste Management State Program Support CFDA #66.801 Grants D005712-97-1 and D005712-96-3	DEQ failed to timely submit financial status reports to the U.S. Environmental Protection Agency as required by the common rule. The reports were late, ranging from 3 to 39 days.

NOTE: This schedule reports instances of immaterial noncompliance with laws and regulations which have no associated questioned costs and are not included in the body of our report. Material instances of noncompliance with laws and regulations are reported in our comments and findings. All instances of noncompliance that have an associated questioned cost are presented on the schedule of questioned costs.

Glossary of Acronyms and Terms

audit rate	Rate applied for cost of auditing federal projects.
BDF	Bottle Deposits Fund.
CNTL	The CNTL transaction provides three sections of daily operator statistics and update transaction activity: entry transaction count, transaction updates by other agencies, and batch input error list.
CRF	Cleanup and Redevelopment Subfund.
CRTF	Cleanup and Redevelopment Trust Subfund.
<i>CFDA</i>	<i>Catalog of Federal Domestic Assistance.</i>
DEQ	Department of Environmental Quality.
DMB	Department of Management and Budget.
DNR	Department of Natural Resources.
DWRPD	Drinking Water and Radiologic Protection Division.
Drinking Water Revolving Fund (DWRF)	A fund established within the Michigan Municipal Bond Authority to provide loans and other types of financial assistance to eligible public water systems.
DWRF Program	The federal grant program that provides capitalization grants to states to establish revolving funds to be used for the construction of drinking water systems in compliance with the Safe Drinking Water Act.
EPA	U.S. Environmental Protection Agency.

ERF	Environmental Response Fund.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial statements and schedules of an audited entity are fairly presented in conformity with generally accepted accounting principles.
internal control structure	The management control environment, accounting system, and control policies and procedures established by management to provide reasonable assurance that resources are safeguarded; that resources are used in compliance with laws and regulations; and that financial transactions are properly accounted for and reported.
MAIN	Michigan Administrative Information Network.
material noncompliance	Violations of law and regulations that could have a direct and material effect on major federal financial assistance programs or on financial statement or schedule amounts.
material weakness	A serious reportable condition in which the design or operation of one or more of the internal control structure elements (including management controls) does not reduce to a relatively low level the risk that errors or irregularities, of a magnitude that would be material in relation to the financial statements, would be material in relation to the financial statements, would not be prevented or detected.
mission	The agency's main purpose or the reason the agency was established.
MMBA	Michigan Municipal Bond Authority.
MUSTFA	Michigan Underground Storage Tank Financial Assurance.
OMB	federal Office of Management and Budget.

PPRISM	Personnel-Payroll Information System for Michigan.
PSWU	A transaction code to change, delete, and update passwords for PPRISM users.
questioned costs	Costs tentatively identified as unallowable, undocumented, unapproved or unreasonable. These costs are subject to disallowance by the federal government.
reportable condition	A matter coming to the auditor's attention that, in his/her judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in the design or operation of the internal control structure.
Single Audit	A financial audit performed in accordance with the Single Audit Act of 1984 that is designed to meet the needs of all federal grantor agencies and other financial report users. A Single Audit is a financial audit which requires additional study and evaluation of the internal control structure and testing of compliance with laws and regulations relevant to federal assistance programs.
<i>SOMCAFR</i>	<i>State of Michigan Comprehensive Annual Financial Report.</i>
SRF Program	The federal grant program that provides capitalization grants to states for establishing revolving funds to be used for the construction of municipal waste water treatment projects, or for the development and implementation of nonpoint source or estuary conservation management programs and plans in compliance with the Clean Water Act.
State Revolving Fund (SRF)	A fund established within the Michigan Municipal Bond Authority to provide low interest loans to municipalities for the construction of publicly owned water pollution control facilities.

SWCAP

Statewide Cost Allocation Plan.

terminal leave
payments

Accrued sick and annual leave payoffs for employees leaving
State service.