

PERFORMANCE AUDIT
OF THE
ENVIRONMENTAL STEWARDSHIP,
MARKETING AND COMMUNICATIONS, AND
PESTICIDE AND PLANT PEST MANAGEMENT DIVISIONS
AND THE OFFICE OF AGRICULTURE DEVELOPMENT

DEPARTMENT OF AGRICULTURE

September 2000

EXECUTIVE DIGEST

ENVIRONMENTAL STEWARDSHIP, MARKETING AND COMMUNICATIONS, AND PESTICIDE AND PLANT PEST MANAGEMENT DIVISIONS AND THE OFFICE OF AGRICULTURE DEVELOPMENT

INTRODUCTION

This report, issued in September 2000, contains the results of our performance audit* of the Environmental Stewardship Division (ESD), Marketing and Communications Division (MCD), and Pesticide and Plant Pest Management Division (PPMD) and the Office of Agriculture Development (OAD), Department of Agriculture.

AUDIT PURPOSE

This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency*.

BACKGROUND

The Department of Agriculture's mission* is to promote and protect the agricultural interests of the people of the State of Michigan. A bipartisan five-member Commission of Agriculture is responsible for the general administration of the Department, including the appointment of the director. The Governor appoints the members of the

* See glossary at end of report for definition.

Commission, with the advice and consent of the Senate, to four-year terms.

ESD provides assistance to local soil and water conservation districts, drain commissioners, and land users in the conservation and development of soil and water resources.

MCD serves as a catalyst, coordinator, and resource to provide promotional, marketing, and public information opportunities for the State's food and agriculture industry.

PPPMD implements programs and enforces laws dealing with agricultural products and pesticide and plant pest management.

OAD serves as a catalyst for improving the economic and environmental sustainability and viability of the State's food and agriculture industry by strengthening and enhancing food and agriculture support businesses and production agriculture opportunities, encouraging the use of alternative technologies and practices, and promoting local community-based development.

For the fiscal year ended September 30, 1999, the Legislature appropriated approximately \$25.3 million for the combined operations of these three divisions and one office. As of September 30, 1999, a total of 209 employees worked in ESD, MCD, PPPMD, and OAD.

**AUDIT OBJECTIVES,
CONCLUSIONS, AND
NOTEWORTHY
ACCOMPLISHMENTS**

Audit Objective: To assess the effectiveness of ESD's, MCD's, PPPMD's, and OAD's implementation of their continuous quality improvement (CQI) initiatives.

* See glossary at end of report for definition.

Conclusion: Our assessment disclosed that ESD, MCD, PPPMD, and OAD were moderately effective in implementing CQI initiatives. However, our review disclosed a reportable condition* related to the implementation of CQI processes (Finding 1).

Audit Objective: To assess the effectiveness of ESD's operations in providing leadership and promoting environmental stewardship for the management of agricultural and other natural resources.

Conclusion: Our assessment disclosed that ESD's operations were generally effective in providing leadership and promoting environmental stewardship for the management of agricultural and other natural resources. However, we noted reportable conditions related to migrant labor housing license applications, the Migrant Labor Housing Advisory Board, and Groundwater Stewardship Program reports (Findings 2 through 4).

Noteworthy Accomplishments: During fiscal years 1996-97 through 1998-99, ESD's Spill Response Program assisted producers and agribusinesses in recovering 30.7 million pounds of material with a product cost of approximately \$3.3 million through the rapid response and land application of the pesticides, fertilizers, and manure materials to appropriate sites at agronomic rates* .

In 1998, ESD awarded migrant labor housing construction grants of \$300,000 for financial assistance to 54 farmers for migrant housing projects that totaled \$1.5 million. This constitutes a 5-to-1 return on investment for State dollars spent.

* See glossary at end of report for definition.

Audit Objective: To assess the effectiveness and efficiency of the Department's Right to Farm Environmental Complaint Response Program.

Conclusion: Our assessment disclosed that the Department's Right to Farm Environmental Complaint Response Program was generally effective and efficient. However, our review disclosed reportable conditions related to the timeliness of inspections and inspection documentation (Findings 5 and 6).

Audit Objective: To assess the effectiveness of MCD's operations related to public relations and food and agricultural marketing.

Conclusions: Our assessment disclosed that MCD's operations related to public relations and food and agricultural marketing were generally effective. However, our review disclosed reportable conditions related to the Agricultural Marketing and Bargaining Board and Michigan Grape and Wine Industry Council meeting minutes, the Michigan Grape and Wine Industry Council promotional activities, and the commodity marketing programs' referendum vote procedures (Findings 7 through 9).

Audit Objective: To assess the effectiveness of PPPMD's operations in protecting human health and the environment.

Conclusion: Our assessment disclosed that PPPMD's operations were generally effective in protecting human health and the environment. However, our review disclosed reportable conditions related to commercial pesticide applicators, nursery dealer license applications, Gypsy Moth Suppression Program county documentation, fruit and vegetable inspection certificates and fee

reconciliation, analysis of livestock remedies*, nursery inspection fees, and seed inspection fees (Findings 10 through 16).

Audit Objective: To assess the effectiveness of OAD's operations in improving the economic and environmental sustainability and viability of Michigan's food and agriculture industry.

Conclusion: Our assessment disclosed that OAD's operations were generally effective in improving the economic and environmental sustainability and viability of Michigan's food and agriculture industry. However, our review disclosed reportable conditions related to the commodity marketing programs' compliance with the Open Meetings Act and the Economic Development Program (Findings 17 and 18).

Noteworthy Accomplishments: In 1998, OAD provided a \$10,000 grant of in-kind resources to study the feasibility of horticultural production at the White Pine Mine in the Upper Peninsula. The grant and other resources will fund an economic feasibility study and business plan to examine engineering parameters of proposed agricultural production and processing facilities, as well as a market analysis of producing flowers, herbs, shittake mushrooms, and other greenhouse products in the former copper mine. The project is unique in Michigan and the United States because of high-intensity lighting and other underground growth chamber technology. The moderate year-round temperatures and disease- and pest-free conditions in mine shafts make them economically viable venues for growing plants. Based on the feasibility study results,

* See glossary at end of report for definition.

Prairie Plant Systems, Inc., is now planning to develop a pilot project in the mine during 2000.

Also in 1998, OAD facilitated meetings between Packerland Packing Company, Inc., representatives, the Michigan Jobs Commission, and local development authorities to secure successful continuation of operations at Murco, Inc., a Plainwell-based beef slaughter and processing operation. Packerland Packing Company, Inc., selected the Michigan location over offers from other states, such as Ohio and Wisconsin, and planned to expand the operation in 1999. OAD employees provided the company with environmental, food safety management, and permit-related counsel during the ownership transition. In May 1999, Packerland Packing Company, Inc., received a \$5.6 million tax credit from the Michigan Economic Growth Authority through an agreement worked out with the Michigan Economic Development Corporation and the Department. The Plainwell-based operation employs approximately 850 people and purchases about 60% of its livestock in Michigan.

**AUDIT SCOPE AND
METHODOLOGY**

Our audit scope was to examine the program and other records of the Environmental Stewardship Division, Right to Farm Environmental Complaint Response Program, Marketing and Communications Division, Pesticide and Plant Pest Management Division, and the Office of Agriculture Development. Our audit was conducted in accordance with *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.

Our audit procedures included examination of records primarily covering the period October 1996 through August 1999. Our audit methodology included a preliminary review of each division's and OAD's operations. This included discussions with various staff regarding their functions and responsibilities and review of program records and Department policies and procedures. To gain an understanding of each division's and OAD's activities and to form a basis for selecting certain operations for audit, we reviewed each division's and OAD's goals* and objectives* , program reports, and annual reports. In addition, we reviewed goals and objectives, activities, and documentation from several programs in each division and OAD.

**AGENCY RESPONSES
AND PRIOR AUDIT
FOLLOW-UP**

Our report includes 18 findings and 19 recommendations. The agency preliminary response indicated that the Department agreed with the 19 recommendations and has implemented or will implement all of them.

The Department had partially complied with 1 of the 5 prior audit recommendations. The portion of that recommendation that was not complied with and the other 4 prior audit recommendations are repeated in this report.

* See glossary at end of report for definition.

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September 14, 2000

Mr. James Maitland, Chairperson
Commission of Agriculture
and
Mr. Dan Wyant, Director
Department of Agriculture
Ottawa Building
Lansing, Michigan

Dear Mr. Maitland and Mr. Wyant:

This is our report on the performance audit of the Environmental Stewardship, Marketing and Communications, and Pesticide and Plant Pest Management Divisions and the Office of Agriculture Development, Department of Agriculture.

This report contains our executive digest; description of agency; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; 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 Divisions' and the Office'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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Description of Agency

The Department of Agriculture is one of the principal departments of State government. The Department's mission is to promote and protect the agricultural interests of the people of the State of Michigan. The Department has developed an overall strategic plan that contains vision, mission, and commitment statements; guiding principles; 6 goals; and 25 corresponding objectives.

A bipartisan five-member Commission of Agriculture is responsible for the general administration of the Department, including the appointment of the director, who serves at the pleasure of the Commission. The Governor appoints the members of the Commission, with the advice and consent of the Senate, to four-year terms.

The Environmental Stewardship Division (ESD) provides assistance to local soil and water conservation districts, drain commissioners, and land users in the conservation and development of soil and water resources. ESD administers the following programs: Groundwater Stewardship, Soil Conservation Districts, Michigan Clean Sweep, Pesticide Container Recycling, Right to Farm Environmental Complaint Response, Pollution Prevention, Spill Response, Michigan Energy Conservation, and Migrant Labor Housing.

The Marketing and Communications Division (MCD) serves as a catalyst, coordinator, and resource to provide promotional, marketing, and public information opportunities for the State's food and agriculture industry. The Marketing Section plays a critical role in marketing, advertising, and promoting the State's food and agriculture products by developing markets for the products in the United States and internationally. The Communications Section handles media relations, video and audio services, and the public relations and public information functions for the Department. The Emergency Services Section protects the State's food and agriculture resources in times of emergencies, such as hazardous materials spills or natural disasters.

The Pesticide and Plant Pest Management Division (PPPMD) implements programs and enforces laws dealing with agricultural products and pesticide and plant pest management.

The Pesticide Section's programs are designed to help protect human health and the environment from adverse effects associated with pesticide use. These

program responsibilities include regulating the sale, handling, and use of pesticides. The Plant Industry Section's programs are designed to ensure that agricultural commodities are free of insect pests and disease, provide consumer protection for agricultural products, and inspect and grade fresh fruit and vegetable products. These program responsibilities include inspecting nursery stock; licensing nursery and plant dealers; providing export inspection services; inspecting fruits and vegetables for size, defects, insects, and diseases; and inspecting various agricultural products.

The Office of Agriculture Development (OAD) serves as a catalyst for improving the economic and environmental sustainability and viability of the State's food and agriculture industry by strengthening and enhancing food and agriculture support businesses and production agriculture opportunities, encouraging the use of alternative technologies and practices, and promoting local community-based development. OAD focuses on the expansion of food and agricultural value-added processing, international marketing, rural development, sustainable agriculture, and enhancement of production agriculture. Also, OAD oversees the activities of the State's 15 legislatively mandated commodity organizations.

For the fiscal year ended September 30, 1999, the Legislature appropriated approximately \$25.3 million for the combined operations of these three divisions and one office. As of September 30, 1999, a total of 209 employees worked in ESD, MCD, PPPMD, and OAD.

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

Audit Objectives

Our performance audit of the Environmental Stewardship Division (ESD), Marketing and Communications Division (MCD), and Pesticide and Plant Pest Management Division (PPPMD) and the Office of Agriculture Development (OAD), Department of Agriculture, had the following objectives:

1. To assess the effectiveness of ESD's, MCD's, PPPMD's and OAD's implementation of their continuous quality improvement (CQI) initiatives.
2. To assess the effectiveness of ESD's operations in providing leadership and promoting environmental stewardship for the management of agricultural and other natural resources.
3. To assess the effectiveness and efficiency of the Department's Right to Farm Environmental Complaint Response Program.
4. To assess the effectiveness of MCD's operations related to public relations and food and agricultural marketing.
5. To assess the effectiveness of PPPMD's operations in protecting human health and the environment.
6. To assess the effectiveness of OAD's operations in improving the economic and environmental sustainability and viability of Michigan's food and agriculture industry.

Audit Scope

Our audit scope was to examine the program and other records of the Environmental Stewardship Division, Right to Farm Environmental Complaint Response Program, Marketing and Communications Division, Pesticide and Plant Pest Management Division, and Office of Agriculture Development. Our audit was conducted in accordance with *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.

Audit Methodology

Our audit procedures were performed from March through September 1999 and included examination of records primarily covering the period October 1996 through August 1999.

To establish our audit objectives and to gain an understanding of ESD's, MCD's, PPPMD's, and OAD's activities, we conducted a preliminary review of each division's and OAD's operations. This included discussions with various staff regarding their functions and responsibilities and review of program records and Department policies and procedures. To gain an understanding of each division's and OAD's activities and to form a basis for selecting certain operations for audit, we reviewed each division's and OAD's goals and objectives, program reports, and annual reports.

To assess the effectiveness of ESD's, MCD's, PPPMD's, and OAD's implementation of their CQI initiatives, we reviewed strategic plans, goals and objectives, established performance standards, performance measurement methods, accomplishment reports, information collection methods, comparisons of actual and desired performance, and follow-up by management.

To assess the effectiveness of ESD's operations in providing leadership and promoting environmental stewardship for the management of agricultural and other natural resources, we reviewed the activities and documentation from the following programs: Groundwater Stewardship, Soil Conservation Districts, Pollution Prevention, Spill Response, and Migrant Labor Housing.

To assess the effectiveness and efficiency of the Department's Right to Farm Environmental Complaint Response Program, we reviewed the memorandum of understanding between the Department and the Department of Environmental Quality, the various generally accepted agricultural and management practices, and other pertinent program documentation. We interviewed and reviewed information provided by stakeholders. We documented the complaint resolution process and reviewed a sample of complaint files. We accompanied Department staff on several complaint follow-up visits.

To assess the effectiveness of MCD's operations related to public relations and food and agricultural marketing, we reviewed the activities and documentation from the Agricultural Marketing and Bargaining Board, the Michigan Grape and Wine Industry Council, the marketing program, and the commodity marketing program referendum process.

To assess the effectiveness of PPPMD's operations in protecting human health and the environment, we reviewed the activities and documentation from the following programs: Pesticide Certification and Licensing, Pesticide Enforcement, Agriculture Products/Fruits and Vegetables, Nursery, and Gypsy Moth Suppression.

To assess the effectiveness of OAD's operations in improving the economic and environmental sustainability and viability of Michigan's food and agriculture industry, we reviewed the activities and documentation from the International Marketing Program, Rural Development Council, Economic Development Program, and Commodity Marketing Program oversight function.

Agency Responses and Prior Audit Follow-Up

Our audit report includes 18 findings and 19 recommendations. The agency preliminary response indicated that the Department agreed with the 19 recommendations and has implemented or will implement all of them.

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 the Department of Agriculture to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

The Department had partially complied with 1 of the 5 prior audit recommendations. The portion of that recommendation that was not complied with and the other 4 prior audit recommendations are repeated in this report.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

CONTINUOUS QUALITY IMPROVEMENT (CQI)

COMMENT

Audit Objective: To assess the effectiveness of the Environmental Stewardship Division's (ESD's), Marketing and Communications Division's (MCD's), and Pesticide and Plant Pest Management Division's (PPPMD's) and the Office of Agriculture Development's (OAD's) implementation of their CQI improvement initiatives.

Conclusion: Our assessment disclosed that ESD, MCD, PPPMD, and OAD were moderately effective in implementing CQI initiatives. However, our review disclosed a reportable condition related to the implementation of CQI processes.

FINDING

1. Implementation of CQI Processes

ESD, MCD, PPPMD, and OAD had not fully implemented CQI processes to evaluate and improve the effectiveness of their programs.

Effectiveness can be evaluated objectively by establishing a CQI process. Current CQI literature supports a CQI process that includes: performance indicators for measuring inputs, outputs, and outcomes; performance standards describing the desired level of performance; a management information and data collection system to accurately gather performance data for assessment; a comparison of actual performance data to desired performance data; a reporting of the comparison results to management; analysis of the performance gaps that exist between the actual and desired performance; and proposals of program modifications to improve effectiveness. Fully implementing a CQI process to evaluate program performance is critical to ensure that ESD, MCD, PPPMD, and OAD use their funds most effectively and to allow them to identify and make needed program revisions.

The Department of Agriculture has developed an overall strategic plan which contains vision, mission, and commitment statements; guiding principles; 6 goals; and 25 corresponding objectives. We found this to be a comprehensive undertaking that reflected a high priority and commitment on the part of top management to employ CQI initiatives.

ESD, MCD, PPPMD, and OAD had each established some CQI components to varying degrees. Our review disclosed that each had developed a mission statement, goals, and objectives. In some cases, the goals and objectives were communicated to us verbally as they had not been formally documented. Our review also disclosed that the Pollution Prevention Program and several federally funded programs had grant agreements and reports that included performance indicators, performance standards, and comparison of actual to desired performance. ESD, MCD, PPPMD, and OAD had management information and data collection processes.

In addition, our review disclosed:

- a. ESD, MCD, PPPMD, and OAD had not developed comprehensive documentation of performance indicators for measuring inputs, outputs, and outcomes and performance standards describing the desired level of performance. The division and office directors verbally described their activities and mandated program requirements, but none had documented the related performance indicators and standards. These elements are critical to providing a measurement focus and a basis for evaluating operations.
- b. ESD, MCD, PPPMD, and OAD had not fully developed methods to compare actual to desired performance, to analyze performance gaps that exist between the actual and desired performance, and to propose program modifications to improve effectiveness.

ESD, MCD, PPPMD, and OAD each prepared annual accomplishment reports to summarize their positive accomplishments. This process could be expanded to include a full comparison of both successful and unsuccessful performance, an analysis of factors contributing to the successful or unsuccessful outcomes, and proposals for program changes.

The Legislature and the Governor have required, in department appropriations acts and Executive Directive 1996-1, respectively, that State programs use CQI processes to manage the use of limited State resources.

RECOMMENDATION

We recommend that ESD, MCD, PPPMD, and OAD fully implement CQI processes to evaluate and improve the effectiveness of their programs.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the recommendation. The Department informed us that effort will be made to document the performance indicators and standards. These performance goals will permit: (1) a description of a desired level of performance, (2) a comparison of actual to desired performance levels, and (3) an analysis of any difference in desired versus actual levels of performance. The Department informed us that ESD, MCD, PPPMD, and OAD have developed strategic plans that are in alignment with the Department's strategic plan. A component of those plans already includes program objectives.

ENVIRONMENTAL STEWARDSHIP DIVISION

COMMENT

Audit Objective: To assess the effectiveness of ESD's operations in providing leadership and promoting environmental stewardship for the management of agricultural and other natural resources.

Conclusion: Our assessment disclosed that ESD's operations were generally effective in providing leadership and promoting environmental stewardship for the management of agricultural and other natural resources. However, we noted reportable conditions related to migrant labor housing license applications, the Migrant Labor Housing Advisory Board, and Groundwater Stewardship Program reports.

Noteworthy Accomplishments: During fiscal years 1996-97 through 1998-99, ESD's Spill Response Program assisted producers and agribusinesses in recovering 30.7 million pounds of material with a product cost of approximately \$3.3 million through the rapid

response and land application of the pesticides, fertilizers, and manure materials to appropriate sites at agronomic rates.

In 1998, ESD awarded migrant labor housing construction grants of \$300,000 for financial assistance to 54 farmers for migrant housing projects that totaled \$1.5 million. This constitutes a 5-to-1 return on investment for State dollars spent.

FINDING

2. Migrant Labor Housing License Applications

ESD did not ensure that migrant labor housing license applications were fully completed in accordance with Section 333.12412 of the *Michigan Compiled Laws* prior to issuing licenses.

Section 333.12412 of the *Michigan Compiled Laws* requires that the following information be included in the application for a license for operation of an agricultural labor camp: name and address of applicant; location of the agricultural labor camp; maximum number of people who will occupy the camp at any time; months during which the camp will be used or occupied; a brief description of the tents, buildings, or other structures in which individuals will be housed; a brief description of the sanitary, water, cooking, and sewage facilities available; and any other information required by the Department.

Our review of a sample of 50 applications disclosed that 5 (10%) applications did not include the maximum number of people who would occupy the camp at any time and 3 (6%) applications did not include a brief description of the camp. These two components are important in evaluating the adequacy of the camp facilities.

RECOMMENDATION

We recommend that ESD ensure that migrant labor housing license applications are fully completed prior to issuing licenses in accordance with Section 333.12412 of the *Michigan Compiled Laws*.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the recommendation. The Department informed us that ESD will monitor the completeness of applications and continue to improve

compliance with the requirement. The information provided in the license application is only one source of information used in licensing migrant labor housing. An inspection is made of each facility prior to issuance of the license. The site evaluation provides the most accurate basis for evaluating the adequacy of the camp facilities. In addition, most of the applications were for renewal licenses and the initial application contained much of the missing information.

FINDING

3. Migrant Labor Housing Advisory Board

The Department had not appointed an advisory board for the Migrant Labor Housing Program.

Effective May 15, 1996, the Migrant Labor Housing Program was transferred from the Department of Public Health (now the Department of Community Health) to the Department of Agriculture by Executive Order 1996-2. Section 333.12421 2(a) of the *Michigan Compiled Laws* requires the Department to promulgate rules related to the appointment of an advisory board representing growers, processors, local health departments, and religious or fraternal organizations to advise the Department on allocation of funds and to make recommendations to the Department as to legislation or other measures necessary or advisable to alleviate a migratory farm labor housing problem. On December 14, 1989, the Department of Public Health (now the Department of Community Health) promulgated *Michigan Administrative Code R 325.3603*, which states that the director shall appoint an advisory board to advise him or her on the administration of Act 368, P.A. 1978, and the rules. The advisory board shall consist of 14 individuals, of which 5 individuals shall be growers who employ migratory laborers or their representatives and not less than 5 individuals shall be migratory laborers, former migratory laborers, or their representatives.

The advisory board had not been established prior to the program being transferred from the Department of Community Health to the Department in 1996. Since then, the Department has not taken action to appoint an advisory board. ESD staff informed us that they participate in the Interagency Migrant Services Committee, which addresses issues related to the migrant labor workforce. This

Committee consists of staff from various State and federal departments and other organizations.

RECOMMENDATION

We recommend that the Department appoint an advisory board for the Migrant Labor Housing Program or seek amendatory legislation to eliminate the requirement.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the recommendation. The Department informed us that it will seek amendatory legislation to eliminate the advisory board requirement. The Department has representation on the Interagency Migrant Services Committee that includes a migrant housing subcommittee. The Committee meets monthly. The Committee, along with the housing subcommittee, serves the purpose of the advisory board. The Committee includes representatives from State and federal agencies that serve the migrant population, other private nonprofit organizations that provide services to migrants, and producer organizations.

FINDING

4. Groundwater Stewardship Program Reports

ESD's grant monitoring controls did not ensure that Groundwater Stewardship Program grant recipients submitted required program reports.

The Groundwater Stewardship Program grant agreements require that grant recipients submit written interim and final program reports to ESD before any interim or final payments can be made available to the grant recipients. ESD awarded grants to 36, 54, and 58 grant recipients totaling \$2.3 million, \$3.0 million, and \$2.8 million in fiscal years 1998-99, 1997-98, and 1996-97, respectively.

Our review of a sample of 12 grant recipient files from fiscal years 1996-97 through 1998-99 disclosed:

- a. Four (33%) of the files did not contain interim program reports. Payments made to these grant recipients totaled \$228,494.
- b. Three (25%) of the files did not contain final program reports. Payments made to these grant recipients totaled \$227,129.

ESD uses the program reports to monitor performance to ensure that time schedules are met, projected work units by time period are being accomplished, and other performance goals are being achieved. These reports are a valuable tool in ESD's grant monitoring process.

RECOMMENDATION

We recommend that ESD improve its grant monitoring controls to ensure that Groundwater Stewardship Program grant recipients submit required program reports.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the recommendation. The Department informed us that ESD will implement the following changes with respect to report filing. In addition to tracking when reports are received, the Michigan Groundwater Stewardship Program will track the file where a report is kept and implement a system for tracking the location of a report whenever it is removed from the file.

RIGHT TO FARM ENVIRONMENTAL COMPLAINT RESPONSE PROGRAM

COMMENT

Audit Objective: To assess the effectiveness and efficiency of the Department's Right to Farm Environmental Complaint Response Program.

Conclusion: Our assessment disclosed that the Department's Right to Farm Environmental Complaint Response Program was generally effective and efficient.

However, our review disclosed reportable conditions related to the timeliness of inspections and inspection documentation.

FINDING

5. Timeliness of Inspections

The Department needs to increase efforts to conduct right to farm environmental complaint inspections on a timely basis.

The Department receives and investigates farm-related complaints (including those involving animal manure use, odor, air pollution, and surface or ground water pollution) from a variety of sources, such as neighbors, the Department of Environmental Quality, townships, and local health departments. A fiscal year 1998-99 memorandum of understanding between the Department and the Department of Environmental Quality states that the Department will respond to all animal waste complaints within 10 days of their receipt. The Department has established a program protocol which states that a letter will be sent to the farmer named in the complaint notifying the farmer that an environmental complaint has been received by the Department. A copy of the applicable generally accepted agricultural and management practices will be included with the letter. The program protocol also indicates that the program's goal is to respond to all right to farm environmental complaints with a farm visit by Department staff within 7 days of receiving a complaint. Subsequent to our fieldwork, the Legislature passed an amendment to the Right to Farm Act requiring that the Department conduct an on-site inspection of the farm or farm operation within 7 business days of receipt of a complaint.

Our review of 43 complaints from fiscal years 1996-97 through 1998-99 disclosed that the Department responded to all 43 complaints with a letter to the farmer informing him or her of the complaint within 10 days, in accordance with the memorandum of understanding. However, the on-site inspections were performed from the same day up to 28 days after the complaint was received, with the average being 12 days. The Department achieved its goal of an inspection within 7 days for only 14 (33%) of the 43 complaints in our sample.

Department staff indicated that the time that elapsed between the complaint and inspection dates was often because of inspector work loads were heavy or because the farmer or complainant was not available to meet with the inspector.

The amount of time elapsing between the complaint and the inspection can have an impact on the outcome of the inspection. Conditions such as manure odor and surface water pollution can vary significantly over time. For example, 12 (71%) of the 17 odor-related complaints in our sample were closed as "not verified," meaning that the inspector found no evidence to support the complaint alleging an environmental problem caused by the farmer's practices. These inspections occurred between 4 and 23 days after the complaint was received, with the average being 11 days. While inspectors consider a number of factors during an on-site inspection, observation of the circumstances as closely as possible to the time that the complaint is made is crucial to establishing the validity of the complaint.

The Department informed us that they have been working jointly with the Department of Environmental Quality to address mutual right to farm concerns and to strengthen the effectiveness of the Right to Farm Program.

RECOMMENDATION

We recommend that the Department increase its efforts to conduct right to farm environmental complaint inspections on a timely basis.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the recommendation. The Department informed us that recent amendments to the Right to Farm Act require the Department to respond to complaints in 7 business days. With the increased requirements in the Right to Farm Program, the Department informed us that has added two full-time employees to ensure that complaints are responded to within the 7-day requirement. Its internal review of the data for 1999 revealed a 7.4-day average response to all complaints.

FINDING

6. Inspection Documentation

The Department did not fully document all right-to-farm environmental complaint inspections.

The Department conducts inspections of farm operations in response to complaints filed to determine if the farming practices conform to generally accepted agricultural and management practices.

Our review of 43 complaint files from fiscal years 1996-97 through 1998-99 disclosed:

- a. In 9 (21%) complaint files, inspectors did not document that they had obtained or considered all relevant information. For example, inspectors made reference to a farmer having performed manure or soil tests but did not indicate the results of those tests and inspectors indicated that manure was applied at agronomic rates but did not specify the rates. Also, inspectors made conclusions that the farmer was in compliance with generally accepted agricultural and management practices but did not specify the practice involved or how they concluded that compliance had been attained.
- b. In 5 (12%) complaint files, inspectors did not document that they had addressed all issues identified in the original complaint or that they had informed the complainant that the issues were outside their authority to review. Each of these complaints involved numerous issues. In 1 of the 5 files, the outstanding issue was eventually addressed during a subsequent follow-up visit.

Each inspector prepares a written inspection report. The reports are in narrative form and vary considerably in content and length. The Department does not require that inspectors use a checklist for the reports. Each inspection report is reviewed by the program director. The program director informed us that he asks the inspector for further information if he believes it is needed. Clear and thorough documentation would help document the inspection details and the farmer's compliance with the generally accepted agricultural and management practices.

RECOMMENDATION

We recommend that the Department fully document all right to farm environmental complaint inspections.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the recommendation. The Department informed us that ESD will strive to improve the documentation in the complaint files to make sure the files address all issues identified in the original complaint and documents that the inspector obtained or considered all relevant information. As a result of a Department of Environmental Quality/Department of Agriculture work group, a right to farm inspector resource guide has been developed and was presented to the right to farm inspectors at the March in-service training. In addition, another work group from the same two departments revised how the two departments handle on-farm complaints. The Department of Agriculture informed us that these efforts should assist in improving the documentation of right to farm complaints.

MARKETING AND COMMUNICATIONS DIVISION

COMMENT

Audit Objective: To assess the effectiveness of MCD's operations related to public relations and food and agricultural marketing.

Conclusions: **Our assessment disclosed that MCD's operations related to public relations and food and agricultural marketing were generally effective.** However, our review disclosed reportable conditions related to Agricultural Marketing and Bargaining Board (AMBB) and Michigan Grape and Wine Industry Council (MGWIC) meeting minutes, MGWIC promotional activities, and the commodity marketing programs' referendum vote procedures.

FINDING

7. **AMBB and MGWIC Meeting Minutes**

The Department did not ensure that AMBB and MGWIC prepared proposed meeting minutes in accordance with the Open Meetings Act.

Section 15.269 of the *Michigan Compiled Laws* (a section of the Open Meetings Act) requires that a public body's proposed meeting minutes be prepared and available for public inspection within 8 business days after the meeting.

Department staff prepared the proposed meeting minutes for both AMBB and MGWIC during the audit period. Our review of proposed meeting minutes for 6 AMBB meetings and 13 MGWIC meetings conducted during the audit period disclosed:

- a. The Department could not document that the AMBB proposed meeting minutes for the 6 meetings were prepared within 8 business days after the meeting. The Department had not established a mechanism to document the date that AMBB proposed meeting minutes were prepared and made available to the public.
- b. The MGWIC proposed meeting minutes for 3 (23%) of 13 meetings were not prepared within 8 business days after the meeting. They were prepared from 9 to 30 business days after the meeting dates.

RECOMMENDATION

We recommend that the Department ensure that AMBB and MGWIC prepare proposed meeting minutes in accordance with the Open Meetings Act.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the recommendation. The Department informed us that the AMBB and the MGWIC minutes now contain the date when the minutes were first made available to the public. The Department also informed us that the MGWIC minutes are now prepared within the 8 business days allowed by the Open Meetings Act.

FINDING

8. MGWIC Promotional Activities

MGWIC had not established procedures to analyze the effectiveness of its promotional activities.

In fiscal year 1998-99, MGWIC allocated about \$144,000 (33%) of its \$434,000 budget for promotion of Michigan wines. MGWIC staff visit various restaurants and stores, hold wine tasting events, present information to the wine industry, and teach courses related to Michigan wines. After each event, MGWIC staff complete an evaluation form, which lists the number of people in attendance, the wines poured, any comments on the event, and what follow-up action was taken. The results of these activities are summarized and reported to MGWIC; however, MGWIC has not established procedures to determine the effectiveness of these staff activities.

RECOMMENDATION

We recommend that MGWIC establish procedures to analyze the effectiveness of its promotional activities.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the recommendation. The Department informed us that MGWIC has taken steps since the time of the audit to establish a list of priority activities for its staff which MGWIC believes will be effective in increasing sales of Michigan wine. As with any promotional activity, the success of these activities is difficult to measure in the short term. Michigan Liquor Control Commission reports document a 27% increase in the sale of Michigan wine in Michigan from 1995 to 1999. The Department informed us that this increase has been, in part, related to MGWIC's promotional activities. The program manager continues to identify measurable outcomes for promotional activity (number of requests for publications, inquiries from restaurants, increases in wines listed by Michigan retailers and restaurants, media coverage, etc.), which aid in determining which promotional activities are most cost-effective.

FINDING

9. Commodity Marketing Programs' Referendum Vote Procedures

The Department had not established written procedures related to conducting new or continuation referendums for commodity marketing programs and did not retain referendum vote supporting schedules.

A referendum is a voting process used to determine if the affected producers of a particular agricultural commodity assent to the creation or continuation of a commodity marketing program. Section 290.661 of the *Michigan Compiled Laws* requires that the Department Director conduct a referendum for new commodity marketing programs. Also, Section 290.671 of the *Michigan Compiled Laws* requires that continuation referendums be conducted during every fifth year of operation of the commodity marketing programs. The Department conducts the referendums for the programs and the commodity marketing programs reimburse the Department for the services provided.

We reviewed the procedures and checklists used for 3 referendums conducted during our audit period. We also reviewed the ballots and supporting documentation for 1 of the 3 referendums. Our review disclosed:

- a. For 1 referendum, the Department did not retain summary schedules supporting the ballot results. The Department prepares a schedule that records the ballot information by ballot number and uses this schedule to determine the outcome of the vote. After the referendum results were released, this schedule was deleted. This information should be retained to substantiate the referendum results.
- b. For 1 referendum, the Department inconsistently applied criteria for voiding ballots. Section 290.661 of the *Michigan Compiled Laws* indicates that a referendum will be considered approved if more than 50%, by number, of the affected producers voting, representing more than 50% of the volume of the affected commodity produced by those voting, assent to the proposal. The volume of the affected commodity produced is commonly referred to as "tonnage" and must be counted in addition to the "yes" or "no" votes cast by the producers. The Department counted a ballot with only 19 pounds of tonnage but voided a ballot with 200 pounds of tonnage saying that there was not enough tonnage to qualify for voting in the latter case.
- c. The Department did not document the rationale for using different sources to obtain the producer list for mailing referendum ballots. The Department used sources such as the commodity marketing program, the Michigan Agricultural Statistics Service, and the Michigan Farm Bureau or a combination of sources

to establish a producer list for mailing referendum ballots. The sources used were not consistent among commodity marketing programs. The Department informed us that it may need to use different sources among commodity marketing programs to obtain the most complete list. In order to ensure fairness, the Department should document at the time of the referendum process the sources considered for each list and the rationale for choosing the sources.

The Department staff informed us that they did not have written procedures for conducting referendums. Written procedures would provide for consistency and fairness in conducting and documenting referendum votes.

RECOMMENDATION

We recommend that the Department establish written procedures related to conducting new or continuation referendums for commodity marketing programs and retain referendum vote supporting schedules.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the recommendation. The Department informed us that steps are being taken to write procedural guidelines for conducting referendums. Ballot summaries were not retained, but the actual ballots were retained so that each referendum result could be re-created, if necessary. In the future, the summary sheets as well as the original ballots will be retained.

PESTICIDE AND PLANT PEST MANAGEMENT DIVISION

COMMENT

Audit Objective: To assess the effectiveness of PPPMD's operations in protecting human health and the environment.

Conclusion: **Our assessment disclosed that PPPMD's operations were generally effective in protecting human health and the environment.** However, our review disclosed reportable conditions related to commercial pesticide applicators, nursery dealer license applications, Gypsy Moth Suppression Program county documentation,

fruit and vegetable inspection certificates and fee reconciliation, analysis of livestock remedies, nursery of livestock remedies, nursery inspection fees, and seed inspection fees.

FINDING

10. Commercial Pesticide Applicators

PPPMD had not established a central monitoring process to help ensure that all commercial pesticide applicators who failed to renew their licenses had discontinued applying pesticides.

Section 324.8313 of the *Michigan Compiled Laws* requires that a commercial pesticide applicator who advertises in any form or who holds himself or herself out to the public as being in the business of applying either general use or restricted use pesticides obtain a commercial applicator license for each place of business.

PPPMD maintains licensing files in the Lansing central office that contain the license applications, liability insurance certifications, and notarized letters of experience. Central office staff process applications, issue licenses to applicants, and generate a report of applicators that have not renewed their licenses. Staff forward these reports to the regional offices. PPPMD requires regional inspectors to contact and order firms that fail to renew their licenses to cease pesticide applications.

PPPMD generated for us a report of applicators that had not renewed their licenses as of May 27, 1999. The report included 1, 91, and 176 firms that had not renewed their licenses since the 1995, 1997, and 1998 license years, respectively. The report also included 11 firms for which there was no license year listed. Our review of a sample of 28 of the 279 firms on this report disclosed:

- a. The regional staff had not always performed follow-up with the firms included on the delinquent list in a timely manner. Regional staff had issued orders to stop prohibited conduct to 17 firms reviewed. An average of 201 days elapsed from the time the license expired to issuance of an order to these firms to stop prohibited conduct. The days elapsed ranged from 71 days to 504 days. The central office records contained only 5 (29%) of the 17 orders

to stop prohibited conduct. Central office staff do not track the timeliness of the follow-up by the regional offices.

- b. The regional offices indicated that the central office records were inaccurate or outdated for 5 (18%) firms in our sample. The regional offices' contacts with the firms disclosed that the firms should have been removed from the list because of changes in firm name, ownership, or location.
- c. No follow-up had been performed for 2 (7%) firms.

PPPMD's development of a process to centrally monitor compliance with licensing requirements would help to ensure that follow-up with firms that fail to renew their licenses occurs on a timely basis and that only licensed commercial applicators engage in the application of pesticides.

RECOMMENDATION

We recommend that PPPMD establish a central monitoring process to help ensure that all commercial applicators who fail to renew their licenses discontinue applying pesticides.

AGENCY PRELIMINARY RESPONSE

The Department agreed with this recommendation. The Department informed us that the Pesticide Section implemented a new procedure to centrally issue orders to stop prohibited conduct to firms failing to renew their business licenses once all common category license applications are processed. This activity allows for sufficient time for application processing and recognition of seasonal business activity schedules (i.e., lawn care firms may not renew licenses on January 1 because business activities do not begin until March or April, depending on seasonal weather conditions). The Pesticide Section will retain a copy of this notice in the firm's business file and continue to maintain related regional reports in various data management systems, depending on the type of inspection or investigation and enforcement action. This procedure will be reviewed by the Pesticide Section to determine if it provides the best method of ensuring a timely response and of notifying regional offices that follow-up compliance monitoring contacts should occur.

FINDING

11. Nursery Dealer License Applications

PPPMD's controls did not ensure that nursery dealer license applications were properly completed and retained.

Section 286.210 of the *Michigan Compiled Laws* requires nursery stock dealers to secure a license by certifying to the Department, in writing, that they will buy and sell only stock that has been duly inspected and certified by the Department and that they will maintain with the Department a list of all sources from which they secure their nursery stock.

Our review of 44 licensed nursery stock dealer files from fiscal years 1996-97 through 1998-99 disclosed:

- a. PPPMD was unable to locate applications for 3 (7%) licensed nursery stock dealers. PPPMD staff informed us that they believed the applications were misfiled.
- b. Nine (20%) applications were processed without the list of nursery stock sources included on the application.
- c. Three (7%) applications were processed without the owners' or authorized representatives' signatures on the applications.

Properly completed nursery dealer license applications are necessary to ensure that only certified dealers receive licenses. Obtaining and retaining this documentation are necessary to ensure that nursery dealers comply with statutory requirements.

RECOMMENDATION

We recommend that PPPMD improve controls to ensure that nursery dealer license applications are properly completed and retained.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the recommendation. The Department informed us that it is currently embarking on a new enterprisewide licensing system. This system will utilize state-of-the-art technology and enhance its system of internal control. It will also ensure that applications are properly completed before issuance of a license and that data will be stored electronically for later retrieval and audit.

FINDING

12. Gypsy Moth Suppression Program County Documentation

PPPMD's controls did not ensure that counties participating in the Gypsy Moth Suppression Program submitted required documents to support compliance with program requirements.

PPPMD entered into grant agreements with counties that outlined the responsibilities and requirements of the counties in order to receive grant assistance from PPPMD. These grant agreements required the participating counties to submit certain documents and information to support the counties' compliance with grant requirements. PPPMD had established a checklist of the documents and information that the counties must submit to PPPMD, along with their deadlines, and a process of following up with telephone calls to counties when documents were not submitted on a timely basis. However, this process did not always result in the counties submitting all required documents and information.

During the 1999, 1998, and 1997 gypsy moth seasons, there were 22, 19, and 9 counties, respectively, that participated in the Gypsy Moth Suppression Program. Payments to the counties totaled approximately \$912,700, \$699,300, and \$312,700, respectively.

Our review of PPPMD documentation of the counties' compliance with the requirements set forth in the grant agreement disclosed:

- a. PPPMD did not obtain, prior to the aerial spraying, a letter of certification from 9 (41%) of 22 counties in 1999, 11 (58%) of 19 counties in 1998, and 4 (44%) of 9 counties in 1997.

In the certification letter, the counties certify to PPPMD that they notified property owners of proposed aerial spraying at least 30 days prior to application. PPPMD requires the submission of the letter of certification prior to the aerial spraying so that PPPMD can be assured that the counties notified property owners on a timely basis.

Timely notice to property owners of upcoming aerial spray applications allows the property owners time to decline the application of pesticides over their land.

- b. PPPMD files did not always contain copies of contracts with aerial spray applicators. Our review of 15 grant files disclosed that 1 (20%) of the 5 counties reviewed for 1998 and 2 (40%) of the 5 counties reviewed for 1997 had not provided copies of the contracts.

A signed contract, prior to the performance of services, is necessary to help ensure that both parties understand and perform their responsibilities identified in the contract.

We reported a similar finding in our prior audit. In response to the prior audit finding, the Department stated that it would revise its controls and program requirements to satisfy the audit recommendation.

RECOMMENDATION

WE AGAIN RECOMMEND THAT PPPMD IMPROVE ITS CONTROLS TO ENSURE THAT COUNTIES PARTICIPATING IN THE GYPSY MOTH SUPPRESSION PROGRAM SUBMIT REQUIRED DOCUMENTS TO SUPPORT COMPLIANCE WITH PROGRAM REQUIREMENTS.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the recommendation. The Department informed us that the receipt of documentation verifying each county's compliance with the gypsy moth contract is a challenge that the gypsy moth staff continue to work on. Numerous hours of follow-up phone calls occur each year to obtain this information. The Department informed us that, to solve this problem, PPMD has made a significant change to the contract for counties participating in the Gypsy Moth Suppression Program. The 2000 contract includes language that will result in communication with the county commission in the event that the county is out of compliance with the agreement. This includes a possible reduction in reimbursement and a termination of the contract for repeated noncompliance.

FINDING

13. Fruit and Vegetable Inspection Certificates and Fee Reconciliation

PPPMD did not maintain necessary controls to account for the Fruit and Vegetable Program's prenumbered inspection certificates. Also, PPPMD had not established procedures to reconcile inspection fees assessed per issued inspection certificates with fees billed to ensure that all inspection fees were billed.

Sound internal control requires that prenumbered inspection certificates be controlled and accounted for. PPPMD maintained control over the issuance of inspection certificates to the inspectors, but it did not account for completed inspection certificates. Such accounting is necessary because the completed inspection certificates document not only inspections completed but also inspection fees assessed. The completed inspection certificates are the basis for the Department's billing of inspection services. Sound internal control also requires a reconciliation of inspection fees assessed per the inspection certificates with inspection fees billed. Such a reconciliation would provide assurance that the Department billed for all inspection services.

For fiscal year 1998-99, inspections generated approximately \$518,000. PPPMD maintained a database containing information from the inspection certificates issued, including the inspection fees assessed. However, PPPMD did not use the available data to account for both used and unused inspection certificates or to reconcile fees assessed with fees billed.

We reported a similar finding in our prior audit report. In response to our prior audit report, the Department stated that it was instituting a procedure to reconcile inspection certificates on a quarterly basis and that all inspection fees received with billing statements would be reconciled on an annual basis, beginning with fiscal year 1993-94.

RECOMMENDATIONS

WE AGAIN RECOMMEND THAT PPPMD MAINTAIN NECESSARY CONTROLS TO ACCOUNT FOR THE FRUIT AND VEGETABLE PROGRAM'S PRENUMBERED INSPECTION CERTIFICATES.

WE ALSO AGAIN RECOMMEND THAT PPPMD ESTABLISH PROCEDURES TO RECONCILE INSPECTION FEES ASSESSED PER ISSUED INSPECTION CERTIFICATES WITH INSPECTION FEES BILLED.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the recommendation. The Department informed us that, on October 1, 1999, PPPMD took the necessary steps to maintain control of the prenumbered certificates by implementing a new access database, which maintains the inventory of assigned and unassigned certificates. The Department also informed us that the new fruit and vegetable fee portion of the database currently reconciles monthly with finance.

FINDING

14. Analysis of Livestock Remedies

PPPMD did not analyze any livestock remedies sold, offered or exposed for sale, or distributed in Michigan.

Section 287.147 of the *Michigan Compiled Laws* requires that PPPMD cause an annual analysis of each livestock remedy (i.e., nonprescription medicated foods, tonics, and conditioners) sold, offered or exposed for sale, or distributed in Michigan.

During fiscal year 1998-99, PPPMD issued approximately 1,450 remedy product licenses. PPPMD ensured that all remedies sold were licensed; however, it did not analyze, or cause to be analyzed, any samples of the remedies. PPPMD contends that it is not practical to analyze each remedy sold, offered or exposed for sale, or distributed in Michigan. PPPMD also contends that it would need a substantial budget increase to complete such analyses.

Analyses of remedies are necessary to protect consumers from fraudulent or adulterated remedies.

In response to our prior audit finding, the Department indicated that it agreed with the finding but that it was not fiscally practical to analyze each animal remedy that is licensed for sale in Michigan. The Department indicated that it would seek an amendment to Act 134, P.A. 1929 (Section 287.147 of the *Michigan Compiled Laws*), to remove the statutory requirement for annual analysis of these products. The Department has not sought such amendatory legislation since our prior audit.

RECOMMENDATION

WE AGAIN RECOMMEND THAT PPPMD ANALYZE LIVESTOCK REMEDIES SOLD, OFFERED OR EXPOSED FOR SALE, OR DISTRIBUTED IN MICHIGAN IN ACCORDANCE WITH SECTION 287.147 OF THE *MICHIGAN COMPILED LAWS* OR SEEK AMENDATORY LEGISLATION TO REVISE THE STATUTORY REQUIREMENT TO ANNUALLY ANALYZE ALL LIVESTOCK REMEDIES.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the recommendation. The Department informed us that proposed amendments to the Livestock and Poultry Remedies Act to remove the statutory requirement for an annual analysis of all remedies have been drafted and that PPPMD is in the process of proposing the amendments to this legislation. While PPPMD supports the availability of sampling and analysis as a tool, it should not be mandatory that all products be tested. In cases of suspected product adulteration or complaints alleging a product's failure to meet an active ingredient guarantee, testing is appropriate. PPPMD contends that, compared with the other means currently being utilized to ensure safety and suitability, the cost of purchasing and analyzing products far outweighs any possible benefits to the public.

FINDING

15. Nursery Inspection Fees

PPPMD did not document that it annually reviewed and adjusted the schedule of nursery inspection fees as required by Section 286.206 of the *Michigan Compiled Laws*.

Section 286.206 of the *Michigan Compiled Laws* requires the Department to review and adjust its schedule of fees for the costs of making the various inspections of nursery stock, plants, and plant materials at the end of each fiscal year.

PPPMD had not adjusted nursery inspection fees since fiscal year 1995-96. PPPMD was unable to provide documentation of any annual reviews of the fees based on the costs of making nursery stock inspections. The Department informed us that it informally reviewed this annually but did not document its review.

Failure to revise inspection fees based on the costs of performing inspections can result in excess General Fund funding of inspection costs.

RECOMMENDATION

We recommend that PPPMD document that it annually reviews and adjusts the schedule of nursery inspection fees as required by Section 286.206 of the *Michigan Compiled Laws*.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the recommendation. The Department informed us that it has conducted a number of fee reviews since the first increase occurred in 1995. The Department also informed us that it was recently determined that there is a need to increase the inspection fees. The Commission of Agriculture approved fee increases at its meeting on December 10, 1999. The Department further informed us that these adjusted fees reflect the current cost of inspections.

FINDING

16. Seed Inspection Fees

The Department had not established seed inspection fees in accordance with the cost recovery portion of the Michigan Seed Law.

Section 286.711 of the *Michigan Compiled Laws* (a section of the Michigan Seed Law) requires the establishment of seed inspection fees to help cover the costs of seed inspections.

The Department expended approximately \$180,000 for seed inspection costs in fiscal year 1997-98. Seed inspection fee revenue would reduce the amount of funding currently provided by the General Fund for seed inspection costs. By not establishing seed inspection fees, the Department is in noncompliance with the Michigan Seed Law.

A similar finding was reported in our prior audit. In response to our prior audit, the Department stated that it would continue to seek legislative and industry support to establish inspection fees to comply with statutory requirements.

RECOMMENDATION

WE AGAIN RECOMMEND THAT THE DEPARTMENT ESTABLISH SEED INSPECTION FEES IN ACCORDANCE WITH THE MICHIGAN SEED LAW OR SEEK AMENDATORY LEGISLATION TO HAVE THE STATUTORY REQUIREMENT REMOVED.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the recommendation. The Department informed us that it continues to seek the industry's support to establish inspection fees for the seed program. If support is not obtained, the Department will seek to remove the fee provision from the Michigan Seed Law as recommended.

OFFICE OF AGRICULTURE DEVELOPMENT

COMMENT

Audit Objective: To assess the effectiveness of OAD's operations in improving the economic and environmental sustainability and viability of Michigan's food and agriculture industry.

Conclusion: Our assessment disclosed that OAD's operations were generally effective in improving the economic and environmental sustainability and viability of Michigan's food and agriculture industry. However, our review disclosed reportable conditions related to the commodity marketing programs' compliance with the Open Meetings Act and the Economic Development Program.

Noteworthy Accomplishments: In 1998, OAD provided a \$10,000 grant of in-kind resources to study the feasibility of horticultural production at the White Pine Mine in the Upper Peninsula. The grant and other resources will fund an economic feasibility study and business plan to examine engineering parameters of proposed agricultural production and processing facilities, as well as a market analysis of producing flowers, herbs, shiitake mushrooms, and other greenhouse products in the former copper mine. The project is unique in Michigan and the United States because of high-intensity lighting and other underground growth chamber technology. The moderate year-round temperatures and disease- and pest-free conditions in mine shafts make them economically viable venues for growing plants. Based on the feasibility study results, Prairie Plant Systems, Inc., is now planning to develop a pilot project in the mine during 2000.

Also in 1998, the OAD facilitated meetings between Packerland Packing Company, Inc., representatives, the Michigan Jobs Commission, and local development authorities to secure successful continuation of operations at Murco, Inc., a Plainwell-based beef slaughter and processing operation. Packerland Packing Company, Inc., selected the Michigan location over offers from other states, such as Ohio and Wisconsin, and planned to expand the operation in 1999. OAD employees provided the company with environmental, food safety management, and permit-related counsel during the ownership transition. In May 1999, Packerland Packing Company, Inc., received a \$5.6 million tax credit from the Michigan Economic Growth Authority through an agreement worked out with the Michigan Economic Development Corporation and the Department.

The Plainwell-based operation employs approximately 850 people and purchases about 60% of its livestock in Michigan.

FINDING

17. Commodity Marketing Programs' Compliance With the Open Meetings Act

OAD did not have procedures to ensure that the commodity marketing programs were in compliance with Sections 15.264 and 15.265 of the *Michigan Compiled Laws* (sections of the Open Meetings Act).

Section 290.657(5) of the *Michigan Compiled Laws*, part of the Agricultural Commodities Marketing Act, requires that the commodity marketing programs comply with the requirements of the Open Meetings Act. Sections 290.664(b) and 290.669 of the *Michigan Compiled Laws* require the Department director to supervise all committee activities to ensure that program operations are in accordance with the rules established under the programs and to institute action necessary to enforce compliance with the Agricultural Commodities Marketing Act. The director delegated these responsibilities to OAD beginning March 1, 1999.

Sections 15.264 and 15.265 of the *Michigan Compiled Laws* set forth requirements related to public notice of meetings of public bodies.

Our review of 6 commodity marketing program audits performed by the Department disclosed that 4 of the 6 commodity marketing programs had not complied with the Open Meetings Act. Instances of noncompliance included not posting public notices of the schedule of regular meetings for the calendar or fiscal year within 10 days after the first meeting of the year and not publishing a display advertisement for meetings held in a private residence. Based on discussions with OAD staff, we determined that OAD did not have procedures to monitor the commodity marketing programs' compliance with the Open Meetings Act.

RECOMMENDATION

We recommend that OAD develop procedures to ensure that the commodity marketing programs comply with Sections 15.264 and 15.265 of the *Michigan Compiled Laws* (Sections of the Open Meetings Act).

AGENCY PRELIMINARY RESPONSE

The Department agreed with the recommendation. The Department informed us that OAD has instituted procedures to review the Open Meetings Act and the Freedom of Information Act with each commodity group annually and when new producer appointments are seated. OAD will monitor to ensure that commodity group minutes are logged and dated when received. The Department informed us that all commodity group meetings have been posted since January 5, 1999.

FINDING

18. Economic Development Program

OAD needs to more fully develop relationships with its food and agriculture support business customers to promote the Department's assistance opportunities.

The primary goals of OAD's Economic Development Program are to strengthen Michigan's food and agriculture support businesses and to assist its clientele in bringing new or expanded product lines to the marketplace. To accomplish these goals, OAD hosts conferences, contacts and assists individual businesses, and works with economic developers and agricultural organizations.

We surveyed 49 companies and organizations listed by OAD as customers assisted or contacted through OAD's Economic Development Program. Our survey disclosed that 10 of the 23 respondents were not aware that they had been contacted by OAD or did not believe that they had ever received any assistance from OAD.

In order to achieve its goals, OAD must be a visible presence and make the Department's assistance opportunities known in the food and agriculture support community.

Of the remaining respondents, approximately 73% indicated that they were satisfied with the extent of the assistance that they received and approximately 80% were satisfied with the timeliness of the assistance. These results indicate that OAD's efforts have been effective with those customers with which OAD has fully developed relationships.

RECOMMENDATION

We recommend that OAD more fully develop relationships with its food and agriculture support business customers to promote the Department's assistance opportunities.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the recommendation. The Department informed us that OAD continues to develop relationships with its food and agriculture support business customers. The Department also informed us that, in 1999, it participated with the Michigan Economic Development Corporation and Michigan State University on studies involving Michigan's food and agriculture industry.

Glossary of Acronyms and Terms

agronomic rate	A rate of application based on agricultural science.
AMBB	Agriculture Marketing and Bargaining Board.
CQI	continuous quality improvement.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical for the amount of resources applied or minimizing the amount of resources required to attain a certain level of outputs or outcomes.
ESD	Environmental Stewardship Division.
goals	The agency's intended outcomes or impacts for a program to accomplish its mission.
livestock remedies	Preparations used for any animal for the purpose of stimulating, invigorating, curing ailments or other reasons. Examples include condimental feeds, medicated stock foods, and conditioners.
MCD	Marketing and Communications Division.
MGWIC	Michigan Grape and Wine Industry Council.
mission	The agency's main purpose or the reason the agency was established.
OAD	Office of Agriculture Development.

objectives	Specific outputs a program seeks to perform and/or inputs a program seeks to apply in its efforts to achieve its goals.
performance audit	An economy and efficiency audit or a program audit, that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
PPPM	Pesticide and Plant Pest Management Division.
reportable condition	A matter coming to the auditor's attention that, in the auditor's judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.