

DEPARTMENT OF HISTORY, ARTS AND LIBRARIES

October 1, 2004 through September 30, 2006

Audit Response Summary

1. Citations complied with:

Finding 2510701

Finding 2510704, item c

2. Citations to be complied with:

Finding 2510702

3. Citations agency disagrees with:

Finding 2510703

Finding 2510704, parts a and b

**Michigan Department of History, Arts and Libraries
Single Audit Response Detail
October 1, 2004 through September 30, 2006**

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Finding Number: 2510701

Finding Title: Internal Control Over Financial Reporting

Management Views: HAL agrees with the finding.

Corrective Action Plan: HAL strengthened the internal controls in fiscal year 2006 and reported all financial transactions accurately.

Anticipated Completion Date: Completed

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FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Finding Number: 2510702
Finding Title: Use of State General Fund/General Purpose Appropriations
Management Views: HAL agrees with part b. and does not agree with part a. of the finding.

In the most recent Single Audit, the Office of the Auditor General recommended that HAL establish an indirect cost rate and charge indirect costs to awards, contracts, and grants, including those received from the federal government. HAL responded that it would more aggressively pursue, within federal regulatory limits, the direct charging of administrative costs to each federal grant and that HAL will reassess its indirect cost rate in light of the impact of this strategy on available grant funds. If federal funds are available and it does not cost more to revise and maintain an indirect cost rate than would be recovered from applying such a rate, the Department would establish and apply a revised indirect cost rate to its awards, contracts, and grants.

The corrective action plan was prepared after meeting with the State Budget Office, and was accepted by the Office of Financial Management and shared with the Governor, Senate and House Appropriation Committee Chairs, and fiscal agencies, as required by statute. At that meeting, it was agreed that HAL would pursue the recovery of indirect costs as a two-step process; first collect direct costs to help survive the 2006 budget and second establish an indirect rate and collect from that.

HAL has implemented the accepted plan. For example, in 2006 HAL recovered all eligible administrative costs under the Library Services and Technology Act (LSTA) grant award by charging the maximum allowable administrative costs to its 2005 LSTA grant. The Institute of Museum and Library Services (IMLS) is the federal funding agency for the LSTA program. IMLS posted a document entitled, "FAQ: 4% Administrative Costs" to clarify administrative costs allowed under LSTA. It reads,

The statute is quite specific in its language with respect to this issue: No more than 4% of the total amount of funds received under this subchapter for any fiscal year by a State may be used for administrative costs (20 U.S.C. Section 9132(a)). IMLS and its predecessor funding agency have long defined administrative costs to include expenses normally classified as indirect costs. In general, administrative costs are those necessary to carry out the management of a state's LSTA program in an efficient manner so that it can meet its program goals and objectives. It includes the area of management concerned with the interpretation of policy and translation of it into effective executive action. As distinguished from program activities, such as statewide services and other specific projects, it is that phase of overall program management that plans, organizes, and controls the activities for the accomplishment of the objectives in the long run.

The FAQ provided several examples of typical administrative costs that must come out of the 4% administrative funds. They include:

- Personnel who make management decisions involved in carrying

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out the LSTA program.

- Financial management costs including audit costs
- Indirect costs

b. HAL agrees with the recommendation and will use all available grant funds before using State General Fund/General Purpose funds.

Corrective Action Plan:

HAL will more aggressively pursue, within federal regulatory limits, the direct charging of administrative costs to each federal grant and will reassess the indirect cost rate in light of the impact of this strategy on available grant funds. If federal funds are available and it does not cost more to revise and maintain an indirect cost rate than would be recovered from applying such a rate, the Department will establish and apply a revised indirect cost rate to its awards, contracts, and grants.

Anticipated Completion Date: September 30, 2007

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Finding Number: 2510703

Finding Title: State Aid to Libraries

Management Views: HAL does not agree with the finding.

HAL obtained an advisory memo from the Department of Attorney General on whether State aid payments to public libraries were distributed in accordance with State law. The memo states,

“HAL’s authority to distribute State aid to public libraries is derived from each year’s appropriations act, and subsection 16(2) does not limit how HAL may distribute the State aid to public libraries.

The Auditor General’s reading of subsection 16(2) does not take into account the dual nature of the subsection as both a substantive act and an appropriations act. Appropriations are only valid for the current and next ensuing fiscal year. After that time, the appropriation is not invalid, but only expresses an intent to appropriate. When the Legislature enacted subsection 16(2), it limited the appropriation contained in that subsection to fiscal year 1978-79. But the Legislature did not and could not limit future Legislatures from appropriating the same amount of State aid to public libraries under the same standards set forth in subsection 16(2). One Legislature cannot bind the power of its successor.

The Legislature appropriates funds to HAL under an appropriations act and not under the State Aid to Public Libraries Act. HAL uses the State Aid Guidelines for Michigan Public Libraries to determine how to distribute the State aid to public libraries. The guidelines use the funding levels established in sections 13 and 16 of the Act when it establishes standards for staffing and local funding for libraries to meet to qualify for the State aid. But the fact that the guidelines refer to eligibility for State aid under subsection 16(2) and that subsection 16(2) allocates funds during the fiscal year 1978-79 does not mean that HAL lacks authority to distribute State aid under the same standards set forth in subsection 16(2).

The appropriations acts for fiscal years 2004-2005 and 2005-2006 provide line-item state aid to public libraries, and the acts do not restrict how HAL may distribute the State aid to public libraries.”

Corrective Action Plan: None

Anticipated Completion Date: None

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FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Finding Number: 2510704

Finding Title: Historic Preservation Fund Grants-in-Aid, CFDA 15.904

Management Views: HAL agrees with part c. and does not agree with parts a. and b. of the finding. HAL does not agree with the introductory statement in the finding. The statement is not supported by the findings and is in direct contradiction to the National Park Service's approval of annual end-of-year reports that certify and document matching, level of effort, earmarking, and reporting for each year during the audit period.

a. Allowable Costs and Principles

The National Park Service, grantor agency for the Historic Preservation Fund Grants-in-Aid Program, supports HAL's opinion that the Michigan State Historic Preservation Office (SHPO) procedures for timekeeping are in full compliance with OMB Circular A-87.

OMB Circular A-87, Attachment B, Section h, Support of salaries and wages, subsection (3) requires that for employees that work solely on a single federal award, charges for their salaries and wages should be supported by periodic certifications that the employee worked solely on that program for the period covered by the certification. The circular further requires that the periodic certifications should be prepared at least semi-annually and signed by the employee or supervisory official having first hand knowledge of the work performed by the employee. Subsection (4) requires that for employees who work on multiple activities or cost objectives, a distribution of their salaries or wages should be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency.

At the end of each biweekly period, the SHPO staff and supervisors certify their time and attendance using DCDS, the state's electronic payroll system. The time and attendance is directly coded to index codes for the federal Historic Preservation Fund grant, non-federal matching share, or other unrelated activities.

Electronic certification of time and attendance records meets all requirements of NPS for maintaining time and attendance and certification records. The semi-annual requirement of OMB Circular-A87, Attachment B, Section h(3) as well as the monthly documentation required by both sections (4) and (5) and Section 3-19 of the OMB Circular Implementation Guide are clearly met with the biweekly reports that SHPO submits.

We understand that the same issue has been an audit finding in other departments. We recommend that there be a centralized review of the appropriate use of DCDS as an electronic system for payroll activity reporting.

b. Matching, Level of Effort, Earmarking

While HAL agrees with the theory of the finding and has instituted procedures to ensure that it met the 25% limit on administrative costs for federal earmarking requirements under the Historic Preservation Fund Grants-in-Aid program, HAL did not exceed the 25% maximum in either of the audit periods. Only two persons that were charged to the historic preservation Grant-in-Aid

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program performed activities that fall under the category "administrative" as defined in the Historic Preservation Grant-in-Aid regulations. Even if these two persons spent 100% of their time on administrative activities, their salaries and benefits were well below the 25% limit. Based on this, HAL met the federal requirement though it did not keep specific documentation of administrative time as noted by the auditors.

c. Reporting

HAL agrees with the finding. Given that the two final project reports in question came in at the close of the fiscal year, HAL submitted them to the NPS together with the required end-of-year reports. While an extension for the end-of-year reports was granted by the NPS, the extension did not specifically include mention of these two reports. However, NPS accepted and approved the reports without question.

Corrective Action Plan:

a. While HAL disagrees with the finding, the SHPO staff have instituted additional procedures to ensure full compliance with the reporting requirements of OMB Circular A-87 until a centralized review of the use of DCDS payroll activity reports for timekeeping and certifications has been conducted.

b. HAL has instituted procedures to ensure that it meets the 25% limit on administrative costs for federal earmarking requirements under the Historic Preservation Fund Grants-in-Aid program.

c. HAL has changed its procedures to submit final project reports to the National Park Service immediately upon closing out the project, ensuring that the reports are submitted to NPS within the specified time period.
Completed

Anticipated Completion Date: