



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF ENVIRONMENTAL QUALITY
LANSING



DAN WYANT
DIRECTOR

February 1, 2013

VIA E-MAIL

Mr. Doug Ringler, Director
Office of Internal Audit Services
Office of the State Budget
George W. Romney Building
111 South Capitol Avenue, 6th Floor
Lansing, Michigan 48913

Dear Mr. Ringler:

In accordance with the State of Michigan, Financial Management Guide, Part VII, enclosed are a summary table identifying our responses and the corrective action plan to address recommendations contained within the Office of the Auditor General's audit report of the Single Audit of Department of Environmental Quality (DEQ).

Questions regarding the summary table or the corrective action plan should be directed to Ms. Sharon Maher, State Administrative Manager, Administration Division, DEQ, at mahers@michigan.gov or 517-241-7991.

Sincerely,

Signature Redacted

James M. Kasprzak, Chief
Administration Division
517-241-7427

Enclosures

cc/enc: Senator Tom Casperson, Senate Natural Resources, Environment and Great Lakes Committee
Senator Mike Green, Senate Appropriations Subcommittee on Environmental Quality
Representative Andrea LaFontaine, House Natural Resources Committee
Representative Eileen Kowall, House Appropriations Subcommittee on Environmental Quality
Ms. Ellen Jeffries, Director, Senate Fiscal Agency
Ms. Mary Ann Cleary, Director, House Fiscal Agency
Mr. Thomas H. McTavish, Auditor General, Office of the Auditor General
Mr. Dennis Muchmore, Governor's Office
Mr. Dan Wyant, Director, DEQ
Mr. Jim Sygo, Deputy Director, DEQ
Ms. Maggie Datema, Director of Legislative Affairs, DEQ
Ms. Sharon Maher, DEQ

DEPARTMENT OF ENVIRONMENTAL QUALITY
Summary of Findings and Corrective Action Status - FY10 and FY11 Single Audit

| Audit recommendations that the DEQ complied with: | Program(s) | Questioned Costs | Corrective Action | Corrective Action Status |
|---|---|------------------|--|--------------------------|
| DEQ and DTMB should comply with State law when expending General Fund/general purpose revenues for expenditures of the SWQIF, a restricted sub-fund of the General Fund. | Financial Statements 7611201 | \$0.00 | The DEQ and DTMB sought legislation to clarify that the transactions processed in this situation are allowable. Boilerplate language was included in Article VII, section 310, 2012 PA 200. | Complete |
| DEQ's internal control over the Coastal Zone Management Administration Awards (CZM) Program should be strengthened to ensure compliance with federal laws and regulations regarding the monitoring of subrecipient single audit reports | Coastal Zone Management Administration Awards 7611202 | \$0.00 | DEQ entered into a Service Level Agreement with the Michigan Department of Education (MDE) for subrecipient monitoring services, effective October 1, 2011. | Complete |
| DEQ's internal control over the State Clean Diesel Program should be strengthened to ensure compliance with federal laws and regulations regarding the monitoring of subrecipient single audit reports. DEQ should establish a process to inform subrecipients of the requirement to include information to specifically identify ARRA funding on the data collection forms. | State Clean Diesel Program 7611204 | \$0.00 | DEQ entered into a Service Level Agreement with the Michigan Department of Education (MDE) for subrecipient monitoring services, effective October 1, 2011. DEQ added the requirement that the subrecipients separately identify expenditures for federal awards under ARRA on the SEFA and the data collection form to the letters that subrecipients receive at the time of disbursement of funds. | Complete |
| DEQ should strengthen its internal control to ensure that its federal reports are accurate and supported by its financial records. DEQ should put a process in place to verify the accuracy of the information contained the ARRA Section 1512 report. DEQ should put a process in place to inform the the subrecipients of the Federal Identification number and the requirement to include information to specifically identify ARRA funding on data collection forms. DEQ should strengthen its internal control over the Clean Water State Revolving Fund Program (CWSRF) to ensure compliance with federal laws and regulations regarding the monitoring of subrecipient single audit reports. | Capitalization for Clean Water State Revolving Funds and ARRA Capitalization for Clean Water State Revolving Fund 7611206 | \$0.00 | DEQ implemented a process to review as many of the data elements as possible, given the tight reporting deadlines. Errors discovered after the due date are corrected during the next reporting cycle, as the U.S. Office of Management and Budget (OMB) regulations allow. Given that no errors were reported, DEQ believes that it has implemented a responsible process. DEQ modified the letter sent to subrecipients at the time of disbursement of funds to include the Federal ID number and the requirement to separately identify ARRA awards on the data collections. DEQ entered into a Service Level Agreement with the Michigan Department of Education (MDE) for subrecipients monitoring services, effective October 1, 2011. | Complete |

DEPARTMENT OF ENVIRONMENTAL QUALITY
Summary of Findings and Corrective Action Status - FY10 and FY11 Single Audit

| Recommendation | Program(s) | Questioned Costs | Corrective Action | Corrective Action Status |
|--|--|---|---|---|
| <p>DEQ should strengthen its internal control to ensure that its federal reports were accurate and supported by its financial records. DEQ should put a process in place to verify the accuracy of the information contained the ARRA Section 1512 report. DEQ should put a process in place to inform the the subrecipients of the Federal Identification number and the requirement to include information to specifically identify ARRA funding on data collection forms. DEQ should strengthen its internal control over the Drinking Water State Revolving Fund Program (DWSRF) to ensure compliance with federal laws and regulations regarding the monitoring of subrecipient single audit reports.</p> | <p>Capitalization for Drinking Water State Revolving Funds and ARRA Capitalization for Drinking Water State Revolving Fund 7611208</p> | <p style="text-align: center;">\$0.00</p> | <p>DEQ implemented a process to review as many of the data elements as possible, given the tight reporting deadlines. Errors discovered after the due date are corrected during the next reporting cycle, as the U.S. Office of Management and Budget (OMB) regulations allow. Given that no errors were reported, DEQ believes that it has implemented a responsible process. DEQ modified the letter sent to subrecipients at the time of disbursement of funds to include the Federal ID number and the requirement to separately identify ARRA awards on the data collection form. DEQ entered into a Service Level Agreement with the Michigan Department of Education (MDE) for subrecipients monitoring services, effective October 1, 2011.</p> | <p style="text-align: center;">Complete</p> |
| <p>Audit recommendations that the DEQ agrees with and will comply</p> | | | | |
| Recommendation | Program(s) | Questioned Costs | Corrective Action | Corrective Action Status |
| <p>DEQ should strengthen its internal controls to ensure that federal reimbursement for State Vehicle usage is not requested without verifying that the vehicles were used for activities related to the PWSS program.</p> | <p>State Public Water System Supervision 7611205</p> | <p style="text-align: center;">\$2,006.00</p> | <p>DEQ will work to improve its internal control over vehicle usage by implementing a monthly process to review vehicle travel charges at the employee level. DEQ will review the current Vehicle Reservation System and determine if there are options available to revise the current process to allow for prior supervisory review and approval.</p> | <p>A work group with representation from DEQ divisions and field offices was established. The group met and reviewed the finding, and the process used to reserve a vehicle. More research needs to be done on the process to determine where a preapproval procedure can be added. We still anticipate a completion date of December 31, 2012.</p> |

DEPARTMENT OF ENVIRONMENTAL QUALITY
Summary of Findings and Corrective Action Status - FY10 and FY11 Single Audit

| Recommendation | Program(s) | Questioned Costs | Corrective Action | Corrective Action Status |
|--|--|--------------------|---|--|
| <p>DEQ should establish a process to obtain invoices, receipts, or other detailed documentation to adequately support expenditures. DEQ should strengthen its internal control over the Nonpoint Source Program to ensure compliance with federal laws and regulations regarding the monitoring of subrecipient single audit reports.</p> | <p>Nonpoint Source Program 7611207</p> | <p>\$0.00</p> | <p>DEQ, in conjunction with DTMB-Internal Audit will develop formal policies and procedures to implement the process whereby a sample of the subrecipients will be chosen and documentation of the expenditures will be obtained. DEQ entered into a Service Level Agreement with the Michigan Department of Education (MDE) for subrecipients monitoring services, effective October 1, 2011.</p> | <p>In process, included as part of the DTMB-IAD FY13 Work Plan. Anticipated completion date March 31, 2013</p> |
| <p>DEQ should strengthen its internal control to ensure that Great Lakes Program subrecipient reimbursements are paid for actual expenditures. DEQ should ensure that contractual payments are properly charged to GLP. DEQ should strengthen its internal control over the Great Lakes Program to ensure compliance with federal laws and regulations regarding the monitoring of subrecipient single audit reports</p> | <p>Great Lakes Program 7611209</p> | <p>\$16,491.00</p> | <p>DEQ staff contacted the subrecipients and obtained all required supporting documentation to verify that the amounts reimbursed to the subrecipients were proper. The DEQ will provide additional guidance to staff on the information that must be obtained to support approval of an invoice for payment. Additional monitoring of reimbursement requests will be performed. DEQ entered into a Service Level Agreement with the Michigan Department of Education (MDE) for subrecipients monitoring services, effective October 1, 2011.</p> | <p>In process-anticipated completion date December 31, 2012</p> |
| <p>DEQ should strengthen its internal controls to ensure that federal reimbursement for State Vehicle usage is not requested without verifying that the vehicles were used for activities related to the PPG program.</p> | <p>Performance Partnership Grant 7611210</p> | <p>\$490.00</p> | <p>DEQ will work to improve its internal control over vehicle usage by implementing a monthly process to review vehicle travel charges at the employee level. DEQ will review the current Vehicle Reservation System and determine if there are options available to revise the current process to allow for prior supervisory review and approval</p> | <p>In process-anticipated completion date December 31, 2012</p> |
| <p>Audit recommendations DEQ disagrees with:</p> | | | | |
| Recommendation | Program(s) | Questioned Costs | Corrective Action | Corrective Action Status |

DEPARTMENT OF ENVIRONMENTAL QUALITY
Summary of Findings and Corrective Action Status - FY10 and FY11 Single Audit

| Recommendation | Program(s) | Questioned Costs | Corrective Action | Corrective Action Status |
|---|--|------------------|--|---|
| <p>DEQ's internal control over the Air Pollution Control Program Support did not comply with federal laws and regulations. DEQ should provide sufficient documentation supporting its compliance with the regulations regarding maintenance of effort calculations.</p> | <p>Air Pollution Control Program Support 7611203</p> | <p>\$0.00</p> | <p>DEQ continues to disagree with this finding. DEQ disagrees with the auditor's interpretation of the grant regulations and awaits the U.S. Environmental Protection Agency's clear guidance, which was requested by the DEQ's Administration Division Chief in May 2011. DEQ has agreed to implement an accounting solution to separately identify activities required by the grant award if the EPA confirms the interpretation made by the auditors. The EPA has not responded to this request and continues to accept the maintenance of effort calculation prepared by the DEQ each year. DEQ will once again send a request to EPA for clear guidance</p> | <p>DEQ Air Quality Division Staff is working on a draft letter to EPA, following up on the request for clear guidance regarding this calculation. The letter will be completed and sent prior to December 31, 2012.</p> |

DEPARTMENT OF ENVIRONMENTAL QUALITY

Corrective Action Plan

As of May 30, 2012

FINDINGS RELATED TO THE FINANCIAL STATEMENTS AND FINANCIAL SCHEDULES

Finding Number: 7611201

Finding Title: State Compliance

Management Views: DEQ and DTMB believe that the accounting transactions in question were accurate, and allowable under generally accepted accounting principles. The restricted financing sources on the fiscal year 2010-11 schedule of sources and disposition of General Fund authorizations includes \$8 million of general purpose revenues for expenditures from the Strategic Water Quality Initiatives Fund (SWQIF), a restricted subfund of the General Fund. The general purpose revenues were converted to State restricted revenues to fund SWQIF expenditures without a General Fund/general purpose appropriation. Subsequently, in fiscal year 2011-12, a transaction was recorded to convert restricted revenue back to General Fund/general purpose revenue.

Planned Corrective Action: DEQ and DTMB sought legislation to clarify that the transactions processed in this situation are allowable.

The boilerplate language requested and included in Article VII, section 310, 2012 PA 200 for the fiscal year 2013 budget is as follows: Upon approval by the state budget director, the department may expend from the general fund of the state an amount to meet the cash-flow requirements of projects funded under any of the following that are financed from bond proceeds and for which bonds have been authorized but not issued: Then it goes on to list Part 52, Part

193 and Part 196 of NREPA. Those are SWQIF, Environmental Protection Bond Fund and CMI, respectively.

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 7611202

Finding Title: Coastal Zone Management Administration Awards CFDA 11.419

Management Views: DEQ agrees with Finding 2 and has already complied with the corresponding recommendation. DEQ entered into a Service Level Agreement with the Michigan Department of Education for subrecipient monitoring services, effective October 1, 2011.

Planned Corrective Action: No additional corrective action is necessary.

Finding Number: 7611203

Finding Title: Air Pollution Control Program Support, CFDA 66.001

Management Views: DEQ continues to disagree with Finding 3. The DEQ disagrees with the auditor's interpretation of the grant regulations and awaits the United States Environmental Protection Agency's (U.S.EPA) clear guidance which was requested by DEQ's Administration Division Chief in May of 2011. DEQ has agreed to implement an accounting solution to separately identify activities required by the grant award if the U.S. EPA confirms the interpretation made by the auditors. The U.S.EPA has not responded to this request, and continues to accept the maintenance of effort calculation prepared by DEQ each year.

Planned Corrective Action: DEQ will continue to seek guidance from the U.S.EPA on this issue.

Finding Number: 7611204

Finding Title: State Clean Diesel Grant Program and ARRA –
State Clean Diesel Grant Program, CFDA 66.040

Management Views: DEQ agrees with Finding 4(a) and has already complied with the corresponding recommendation by entering into a Service Level Agreement with the Michigan Department of Education for subrecipient monitoring services, effective October 1, 2011.

DEQ agrees in part with Finding 4(b) and has already complied with the corresponding recommendation. DEQ did not receive timely guidance from the U.S. EPA regarding the requirement that ARRA funding should be noted separately on the SEFA and Data Collection Form. The U.S. EPA was diligent to provide guidance on other ARRA requirements using webinars and guidance memos. However, this requirement was not addressed as the U.S. EPA continuously worked with states to get the ARRA funds allocated by the February 17, 2010, deadline. The U.S. EPA, Headquarters office for the program noted that the terms and conditions of the grant award are subject to the interpretation by the U.S. EPA guidance. Lack of guidance from the U.S. EPA in this area is an indicator that this was not a primary concern of the federal agency.

DEQ has added the requirement that the subrecipients separately identify the expenditures for Federal awards under ARRA on the SEFA and Data Collection Form to the letters subrecipients receive at the time of disbursement of funds.

Planned Corrective Action: No additional corrective action is necessary.

Finding Number: 7611205

Finding Title: State Public Water System Supervision, CFDA

66.432

Management Views: DEQ agrees with Finding 5(a), (b), and (c) and will comply.

Planned Corrective Action: DEQ will work to improve its internal controls over vehicle usage by implementing a monthly process to review vehicle travel charges at the employee level. Division Administration will coordinate the review with supervisors as needed to ensure charges are appropriate and support PWSS activities. In addition, DEQ will evaluate the current Vehicle Reservation System (VRS) and determine if there are options available to revise the current reservation process to allow for prior supervisory review, approval of travel and related account coding.

Finding Number: 7611206

Finding Title: Capitalization Grants for Clean Water State Revolving Funds and ARRA-Capitalization Grants for Clean Water State Revolving Funds, CFDA 66.458

Management Views: DEQ agrees with Finding 6(a) that there is no formal process to review information submitted by subrecipients prior to the submission of the 1512 reports. Given the tight reporting schedule, there is not adequate time to extensively review and validate all of the information submitted by subrecipients prior to the due date which is ten calendar days after each quarter end. The DEQ established a process to review as many of the data elements as possible before the submission date. Errors discovered after the due date are corrected during the next reporting cycle, as OMB regulations allow.

To allow for accurate reporting, DEQ provided the subrecipients five days to complete the report and return it to the DEQ. The data collection forms are reviewed for pertinent and complete information (i.e., monthly jobs, hours worked,

and payroll amounts are calculated properly, project number, subrecipient DUNS number, zip code format is nine digits). There was not sufficient time to ensure that all vendors had been reported on the data collection forms. In some cases, not all contracts had been awarded by the subrecipients to the vendors.

Given that no errors were reported, the DEQ believes that it has implemented a responsible process to ensure the most accurate reporting possible given the very short reporting window.

DEQ agrees with Finding 6(b)(2) and has already complied with the corresponding recommendation by entering into a Service Level Agreement with the Michigan Department of Education for subrecipient monitoring services, effective October 1, 2011.

DEQ agrees in part with Finding 6(b)(1) and 6(c) and has already complied with the corresponding recommendation. DEQ did not receive timely guidance from the U.S. EPA regarding these requirements. Previously, subrecipients were not provided with the federal award number at the time of subaward or at the time of disbursement of funds. At the time of disbursement of funds, subrecipients were told the CFDA number and the distribution between federal and state funding sources. DEQ also did not receive timely guidance from the U.S. EPA regarding the requirement that ARRA funding should be noted separately on the SEFA and Data Collection Form. The U.S. EPA was diligent to provide guidance on other ARRA requirements using webinars and guidance memos. However, these requirements were not addressed as the U.S. EPA continuously worked with states to get the ARRA funds allocated by the February 17, 2010, deadline. The U.S. EPA, Headquarters office for the program noted that the terms and conditions of the grant award are subject to the interpretation by the U.S. EPA guidance. Lack of guidance from the U.S. EPA

in this area is an indicator that this was not a primary concern of the federal agency.

DEQ has added the federal award number to the letters subrecipients receive at the time of disbursement of funds. DEQ has also added the requirement that the subrecipients separately identify the expenditures for Federal awards under ARRA on the SEFA and Data Collection Form to the letters subrecipients receive at the time of disbursement of funds.

Planned Corrective Action: No additional corrective action is necessary.

Finding Number: 7611207

Finding Title: Nonpoint Source Implementation Grants, CFDA 66.460

Management Views: DEQ agrees with the facts in finding 7(a) and 7(b)(1), however, the NPS Program implemented a \$500 threshold where costs under \$500 do not require receipts. The program requires the subrecipient to submit a list of items purchased to validate charges. In addition, DEQ project administrators ensure that all costs are consistent with the contract. While the federal regulation 40 CFR 31.24 requires costs to be verifiable from the records of grantees and subgrantees, it does not state the DEQ has to collect and have on file all such documentation. The Code of Federal Regulations also states the DEQ is to "have primary responsibility for employing whatever form of organization and management techniques may be necessary to assure proper and efficient administration of Federal awards" and have "efficient and effective administration of Federal awards through the application of sound management practices." Our practices are effective, efficient and the risk involved in costs under \$500 is minimal.

DEQ agrees with Finding 7(b)(2) and 7(b)(3) and

has already complied with the corresponding recommendation.

Planned Corrective Action: Regarding finding 7(b)(1), DEQ will develop formal policies and procedures to implement the process where a sample of the expenditures reported that are under \$500 is selected. Documentation supporting these expenditures included in the sample will be requested and reviewed.
Regarding finding 7(b)(2) and 7(b)(3), DEQ entered into a Service Level Agreement with the Michigan Department of Education for subrecipient monitoring services, effective October 1, 2011.

Finding Number: 7611208

Finding Title: Capitalization Grants for Drinking Water State Revolving Funds and ARRA-Capitalization Grants for Drinking Water State Revolving Funds, CFDA 66.468

Management Views: DEQ agrees with finding 6(a) that there is no formal process to review information submitted by subrecipients prior to the submission of the 1512 reports.. Given the tight reporting schedule, there is not adequate time to extensively review and validate all of the information submitted by subrecipients prior to the dues dates. DEQ established a process to review as many of the data elements as possible before the submission date. Errors discovered after the due date are corrected during the next reporting cycle, as OMB regulations allow.

DEQ agrees with Finding 8(b)(2) and has already complied with the corresponding recommendation. DEQ entered into a Service Level Agreement with the Michigan Department of Education for subrecipient monitoring services, effective October 1, 2011.

DEQ agrees in part with Finding 8(b)(1) and

8(c)(1) and (2) and has already complied with the corresponding recommendation. DEQ did not receive timely guidance from the U.S. EPA regarding these requirements. Previously, subrecipients were not provided with the federal award number at the time of subaward or at the time of disbursement of funds. At the time of disbursement of funds, subrecipients were told the CFDA number and the distribution between federal and state funding sources. DEQ also did not receive timely guidance from the U.S. EPA regarding the requirement that ARRA funding should be noted separately on the SEFA and Data Collection Form. The U.S. EPA was diligent to provide guidance on other requirements using webinars and guidance memos; however, these requirements were not addressed. Lack of guidance from the U.S. EPA in this area is an indicator that this was not a primary concern of the federal agency.

The U.S. EPA performed program reviews on May 2010, December 2010, June 2011, and October 2011, to ensure that the DEQ was meeting the grant requirements. Each time, the DEQ disbursement process for DWSRF funds was reviewed and tested, and the U.S. EPA noted no findings or recommendations.

DEQ has added the federal award number to the letters subrecipients receive at the time of disbursement of funds. DEQ has also added the requirement that the subrecipients separately identify the expenditures for Federal awards under ARRA on the SEFA and Data Collection Form to the letters subrecipients receive at the time of disbursement of funds as of February of 2010.

Planned Corrective Action: No additional corrective action is necessary.

Finding Number: 7611209

Finding Title: Great Lakes Program, CFDA 66.469

Management Views: DEQ agrees with Finding 9(a)(1) and (2) and will comply. DEQ changed its practice of accepting summary documentation when determining allowable costs. Subrecipients are now required to submit reimbursement documentation with receipts or invoices for expenditures.

DEQ agrees with Finding 9(b)(1) and (2) and has already complied with the corresponding recommendation. DEQ entered into a Service Level Agreement with the Michigan Department of Education for subrecipient monitoring services, effective October 1, 2011.

Planned Corrective Action: DEQ staff contacted the grantees to obtain all required supporting documentation to verify the amounts reimbursed to the grantees were correct. The program is currently in the process of providing additional guidance to staff on the information that must be contained as support when approving an invoice for payment. This guidance will be implemented for all Great Lakes Initiative Projects.

Finding Number: 7611210

Finding Title: Performance Partnership Grants, CFDA 66.605

Management Views: DEQ agrees with Finding 10(a), (b), and (c) and will comply.

Planned Corrective Action: DEQ will work to improve its internal controls over vehicle usage by implementing a monthly process to review vehicle travel charges at the employee level. Division Administration will coordinate the review with supervisors as needed to ensure charges are appropriate and support PPG activities. In addition, DEQ will evaluate the current Vehicle Reservation System (VRS) and determine if there are options available to revise the current reservation process to allow for prior supervisory review, approval of travel and related account coding.