Department of Environmental Quality
State of Louisiana

Procedural Report

Issued July 5, 2012

LOUISIANA LEGISLATIVE AUDITOR
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This document is produced by the Louisiana Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. One copy of this public document was produced at an approximate cost of $4.52. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.lla.la.gov. When contacting the office, you may refer to Agency ID No. 8777 or Report ID No. 80110053 for additional information.

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PROCEDURAL SUMMARY

Our procedures at the Department of Environmental Quality (DEQ) for the period July 1, 2009, through June 30, 2011, disclosed the following:

- DEQ allows its waste tire processors to use their own scales to weigh their waste tire shipments rather than require confirmation of the weights from a third party or the end user in administering its Waste Tire Management Program (WTMP). Because WTMP payments are based on supporting documentation submitted by the waste tire processors, those processors have an incentive and an opportunity to overstate the amount of processed material contained in payment requests submitted to DEQ.

- DEQ has internal control deficiencies over revenues. Management incorrectly excluded receivables outstanding for more than three years, resulting in an understatement of full accrual revenues and receivables totaling $3,128,396. For the second consecutive engagement, management does not have adequate procedures in place to ensure all negative past due accounts receivable balances are resolved timely. Management has not established formal control procedures to ensure negotiated fee billings are properly supported.

- For the second consecutive year, DEQ has not consistently followed departmental internal control procedures that are designed to ensure the accuracy of employee time and attendance records that support $75.3 million of payroll expenditures in fiscal year 2010 and 2011.

This report is a public report and has been distributed to state officials. We appreciate DEQ's assistance in the successful completion of our work.

LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

May 24, 2012

DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Baton Rouge, Louisiana

As required by Louisiana Revised Statute 24:513, we conducted certain procedures at the Department of Environmental Quality (DEQ) for the period from July 1, 2009, through June 30, 2011.

- Our auditors obtained and documented a basic understanding of DEQ's operations and system of internal controls through inquiry, observation, and review of its policies and procedures documentation, including a review of the laws and regulations applicable to DEQ.

- Our auditors performed analytical procedures consisting of a comparison of the most current and prior year financial activity using DEQ's annual fiscal report and/or system-generated reports and obtained explanations from DEQ management for any significant variances.

- Our auditors reviewed the status of the findings identified in the prior year management letter, dated August 19, 2010. The prior year finding relating to inadequate controls over disbursements has been resolved by management. The prior year findings relating to inadequate controls over revenue and inadequate controls over time and attendance records have not been resolved and are addressed again in this letter.

The Annual Fiscal Reports of DEQ were not audited or reviewed by us, and, accordingly, we do not express an opinion on those reports. DEQ's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

Based on the application of these procedures, all significant findings are included in this letter for management's consideration. We found no other significant control deficiencies, noncompliance, or errors relating to our analytical procedures or our other procedures that should be communicated to management.

The following significant findings are included in this letter for management's consideration.

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Inadequate Controls Over the Waste Tire Management Program

DEQ allows its waste tire processors to use their own scales to weigh their waste tire shipments rather than require confirmation of the weights from a third party or the end user in administering its Waste Tire Management Program (WTMP). Because WTMP payments are based on supporting documentation submitted by the waste tire processors, those processors have an incentive and an opportunity to overstate the amount of processed material contained in payment requests submitted to DEQ. Although DEQ has established written policies and procedures to ensure that payment requests agree to the supporting documentation submitted by the processors before disbursement, the risk still exists that processors could overstate eligible tire inventory weights and/or claim reimbursement for ineligible tires without being detected by DEQ. In addition, DEQ does not investigate variances between processed materials and eligible tire inventories or provide for random inventory audits of waste tire processors.

WTMP was established by Louisiana Revised Statute 30:2418 to reduce the volume of waste tires in Louisiana by facilitating a market for recycled waste tire material. DEQ provides subsidies to registered waste tire processors that receive and process waste tires for use in approved projects. Subsidies are based on the total weight of eligible processed tire material marketed to qualified end-users under approved projects. From July 1, 2009, to June 30, 2011, DEQ disbursed $19.9 million in subsidies to five waste tire processors.

DEQ management is responsible for establishing controls to ensure that expenditures of public funds are adequately supported. Although DEQ requires processors to provide certified weight tickets on all requests for reimbursement, allowing processors to use their own scales with no confirmation from a third party or end user creates an unacceptably high risk of fraud or error on behalf of the waste tire processors.

Management should require independently created or confirmed weight tickets from a third party or the end user and DEQ staff should perform analytical procedures to determine if the amount of waste tire material processed is commensurate with the number of waste tires available for processing per manifest documentation, investigate variances between processed materials and eligible tire inventories, and provide for random inventory audits of waste tire processors. Management concurred with the finding but states in its response that it does not believe it is beneficial from an oversight perspective to require processors to have confirmed weight tickets from a third party (see Appendix A, pages 1-2).

Additional Comments: Without obtaining an independent confirmation of processed material weights from a third party or the end user, DEQ retains an unmitigated risk of fraud that could result in overpayments to processors.

Inadequate Controls Over Revenues

Our review of Environmental Trust Fund revenues disclosed the following:

- Management incorrectly excluded receivables outstanding for more than three years, resulting in an understatement of full accrual revenues and receivables totaling $3,128,396 at June 30, 2010.

- For the second consecutive engagement, management does not have adequate procedures in place to ensure all negative past due accounts receivable balances are resolved timely. Negative receivable balances totaling $611,467 remain unresolved at June 30, 2011. The department has implemented corrective action and we have noted a reduction in the negative receivable balance in the past year; however, the need still exists for management to continue to strengthen controls to reduce the balance further.

- Management has not established formal control procedures to ensure negotiated fee billings are properly supported. DEQ was unable to support negotiable annual air maintenance fee billings totaling $96,237 that were included in fiscal year 2010 revenues. Failure to maintain documentation supporting fee billings increases the risk that facilities will not be billed in accordance with applicable laws and regulations.

Good internal controls should include procedures to ensure that revenues and related accounts receivable are complete and accurate and properly supported. These deficiencies exist because management has not identified these deficiencies in its monitoring procedures. Failure to develop and implement procedures over revenues increases the risk of loss of revenues, the risk of material misstatement of revenues and receivables, and the risk that errors and/or fraud could occur and remain undetected in a timely manner.

Management should implement procedures to ensure that accounts receivable are complete and accurate and should identify and correct negative accounts receivable at year-end. In addition, management should implement formal procedures to ensure that negotiated fee billings are adequately supported. Management concurred in part with the finding and expressed that it has procedures in place to resolve negative past due accounts receivable balances in a timely manner (see Appendix A, pages 3-5).

Additional Comments: We acknowledge management has implemented procedures in efforts to resolve past due negative accounts receivable balances; however, the results of our procedures indicate that outstanding balances are still not being resolved timely. Approximately 60% of the $611,467 in unresolved negative receivable balances outstanding at June 30, 2011, date back to fiscal years 2005 through 2009.

Inadequate Controls Over Time and Attendance Records

For the second consecutive year, DEQ has not consistently followed departmental internal control procedures that are designed to ensure the accuracy of employee time and attendance records that support $75.3 million of payroll expenditures in fiscal years 2010 and 2011. DEQ's procedures require that time and attendance records be certified no later than the end of the following pay period. Our examination of 11 time and attendance records disclosed the following:

- Four (36%) records were not timely approved by the supervisor ranging from 1 to 42 days after the end of the following pay period.

- Three (27%) records were not timely certified for accuracy of the hours posted by an individual independent of the posting of hours in the statewide payroll system ranging from 15 to 27 days after the end of the following pay period.

- Two (18%) records were not approved by the employee's supervisor.

- Two (18%) records were not certified by an individual independent of the posting of hours in the statewide payroll system.

Management has not placed sufficient emphasis on the importance of the approval and certification of time and attendance records in accordance with DEQ's policy. Failure to timely approve employee time and attendance records and certify the accuracy of hours posted increases the risk that inaccurate or fraudulent data could be entered and processed into the statewide payroll system and not be detected timely. Management should emphasize the importance of compliance with departmental internal control procedures that apply to the certification of employee time and attendance records. Management partially concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 6-7).

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of DEQ. The nature of the recommendations, their implementation costs, and their potential impact on the operations of DEQ should be considered in reaching decisions on courses of action.

This letter is intended solely for the information and use of DEQ and its management, others within DEQ, and the Louisiana Legislature and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this letter is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

Daryl G. Purpera

Daryl G. Purpera, CPA, CFE
Legislative Auditor

ETM:BQD:THC:ch

DEQ 2012

APPENDIX A

Management's Corrective Action Plans and Responses to the Findings and Recommendations

BOBBY JINDAL
GOVERNOR

PEGGY M. HATCH
SECRETARY

State of Louisiana
DEPARTMENT OF ENVIRONMENTAL QUALITY
OFFICE OF MANAGEMENT & FINANCE

May 16, 2012

Mr. Daryl G. Purpera, CPA, CFE
Office of the Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Purpera:

This is the Department of Environmental Quality's (DEQ) response to the reportable finding **"Inadequate Controls over the Waste Tire Management Program".**

Management concurs there could be an incentive and an opportunity for the waste tire processors to overstate the amount of processed material contained in the payment requests to DEQ. However, we believe the risk of overstatement is minimized by the following:

- Processors with on-site scales are required by the Department of Agriculture and Forestry (DAF) to have the scales and operators certified on an annual basis. DAF allows DEQ to request additional certifications at any time if deemed necessary. DAF will also provide DEQ with a copy of the certifications upon request. Of the five waste tire processors who request payments from DEQ through the Waste Tire Management Program (WTMP), three have on-site scales and two use third-party scales. In addition, one of the primary beneficial end users requires that processors weigh the material upon delivery.

The department has established or is establishing the following procedures to provide further assurance the payment requests are not overstated:

- The DEQ Internal Audit Section is developing a program for randomly auditing a processor's whole tire and processed material inventories. These audit determined inventory amounts will be reconciled with the inventories reported by the processor on the corresponding Monthly Processor Payment Report.
- The DEQ Waste Tire Program staff is developing analytical procedures to determine if the amount of waste tire material processed is commensurate with the number of waste tires available for processing per manifest documentation. Each Processor's monthly eligible and ineligible processed pound per tire equivalent is compared with the Rubber Manufacturer Associations standard per pound tire equivalent, as well as the other processors average pound per tire equivalent, to ensure these values are within reasonable limits.

- Variances outside of reasonable limits found by the Waste Tire Program staff and the Internal Audit staff will be further examined.

The department does not believe it is beneficial from an oversight perspective to require processors to have confirmed weight tickets from a third party. This requirement fails to offer any additional assurance of accuracy since the processor's on-site scales have the same DAF certification requirements as the third-party scales.

Sincerely,

Vince Sagnibene
Undersecretary

Bobby Jindal
GOVERNOR

Peggy M. Hatch
SECRETARY

State of Louisiana

DEPARTMENT OF ENVIRONMENTAL QUALITY
OFFICE OF MANAGEMENT & FINANCE

May 16, 2012

Mr. Daryl G. Purpera, CPA, CFE
Office of the Legislative Auditor
Post Office Box 94397
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Dear Mr. Purpera:

This document represents a response by DEQ Management to the reportable finding **"Inadequate Controls over Revenues".**

Management concurs with bullets one and three of the finding and partially concurs with bullet two of the finding:

1. The department excluded receivables outstanding as a result of matching the amounts reported in the Annual Fiscal Report to the amounts reported in the Quarterly Accounts Receivable Report as required by the Office of Statewide Reporting and Accounting Policy (OSRAP). OSRAP changed their reporting requirements effective for the March 31, 2010 quarter. This report effectively eliminated reporting any receivable older than three years. For future years, the department will report full accrual revenues and receivables as directed by the Annual Fiscal Report instructions.

2. The department concurs that a negative receivable balance of $611,478 existed at June 30, 2011. The first finding was contained in the audit report issued on October 20, 2010, after the beginning of the next audit period. The department does not concur that it does not have procedures in place to resolve negative past due accounts receivable balances in a timely manner. Our accounts receivables are billed at intervals over the entire fiscal year. There are daily receipts of payments on accounts throughout the year. Therefore, overpayments perpetually occur. It is not realistically possible to have all negative accounts resolved at any point in time. However, we are addressing time efficiencies through a change to electronic deposits, which will allow the accountants to devote more time to account resolutions.

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The department has had procedures in place to manage all accounts in the subsidiary ledger regardless of the balances for many years. After the 2008/2009 Compliance and Control Audit, which was issued on October 20, 2010, we developed procedures for reviewing and reconciling negative balances. As stated in the 2008/2009 audit response, we work on negative accounts as time permits. Our focus must remain on depositing funds in the required 24 hour time-frame and collecting and reconciling past due accounts. However, we do continuously resolve accounts with credit balances as demonstrated by examining the SFY2011, SFY2010 and SFY2009 activities:

	SFY2011	SFY2010	SFY2009
Refunds processed	288	61	93
Value of Refunds	$113,880	$64,363	$112,610
Transferred overpayments to outstanding invoices	1,316	1,217	1,606
Value of transferred overpayments	$591,425	$741,496	$985,809

The department also maintains negative balance accounts for facilities that have overpaid and have requested that we keep the payment and apply it to next year's invoice. The department has established procedures to track these payments and report them in the Annual Fiscal Report as "deferred revenue" beginning with Fiscal Year 2010-11.

The department is upgrading its receipt depositing process to include electronic submittal of checks to the state's bank. The process will include a daily batch file of each check and invoice transmitted that will be automatically posted to the department's subsidiary ledger. This will eliminate the need to copy checks and invoices and manually prepare deposits and, as a result, free up the accountants time to research accounts with balances. The department is confident that the automatic posting will reduce the opportunity for posting errors and the amount of time needed to research these accounts.

3. The negotiated fee code is established in the Fee Schedule under Fee Code 1710. When a negotiated fee code is used for a facility, the department does not actually "negotiate" a fee. This data field in the department's data system is used when other options do not apply. All calculations used are established in the regulations or guidance document. For the Air Permits Division, what is termed "negotiated fee code" field is used in only three instances:

    a. If the capacity of the facility is deemed confidential by the Secretary, the fee is calculated using the fee code defined in the regulations or guidance document. Since this information is printed in permits, which is public record, the information is entered into the department's data system using the "negotiated fee code" field to maintain confidentiality of the data.

b. If a facility does not have a fee code or like fee code specified in the regulations, a "negotiated fee code" is used. The formula for determining the fee is established in a guidance document to ensure that fees are calculated consistently.

c. As specified in the regulations, the fee for the Regulatory Permit for the Release of Natural Gas from Pipelines and Associated Equipment and the Regulatory Permit for Oil and Gas Well Testing is $300 and the fee code is 1710, which is the "negotiated fee code".

In the sample taken during the audit, one activity with a negotiated fee code was pulled for verification. The only portion of the calculation that could not be verified for the sample was the facility capacity which was maintained as confidential information. During the time following the audit field work, the department obtained the confidential information from the facility and verified that it supports the calculation in the department's data system. The Legal Division of the department has developed procedures and a chain of custody to ensure the appropriate receipt and retention for confidential information. The Air Permits Division is updating its procedures to require permit writers to check confidential capacity against the fee when applications are received. They are also updating the permit application requirements so that all requests for confidentiality are re-submitted with each permit application.

E. Denise Stafford, Accountant Administrator, is the contact person responsible for ensuring that the corrective action necessary has been completed. If there are any questions, please contact her at (225) 219-3865.

Sincerely,

Vince Sagnibene
Undersecretary

EDS/

BOBBY JINDAL
GOVERNOR

PEGGY M. HATCH
SECRETARY

State of Louisiana
DEPARTMENT OF ENVIRONMENTAL QUALITY
OFFICE OF MANAGEMENT & FINANCE

May 16, 2011

Mr. Daryl G. Prupera, CPA, CFE
Office of Legislative Auditor
Post Office Box 94397
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Dear Mr. Purpera:

This document represents a response by DEQ Management to the audit finding "Inadequate Controls over Time and Attendance Records".

The Department concurs in part with this finding. At the time of the audit our internal procedures required that the time and attendance records be certified no later than the end of the following pay period. Our Human Resources Office surveyed a number of other state departments and found that they do not have an internal timeframe/deadline for the certification of time and attendance records at all. Though we concur with the fact that a few of our timesheets were not certified within our internal timeframe; we do not feel that this rises to the level of a "reportable audit finding" when other agencies do not have any established timeframes. At most we are at fault for establishing an over ambitious deadline for the certification of records.

Further, the department adamantly disagrees with the "leap" that is made based on this finding that management has not placed enough emphasis on the importance of the time and attendance records. In our defense, the DEQ began evaluating the ratio of timekeepers to employees in August 2010. During this period the DEQ had to implement layoff avoidance measures as well as a layoff plan and reorganizational strategies to address budgetary constraints and position cuts.

As a result, the DEQ unfortunately abolished 15 Administrative Assistant positions and laid off 7 Administrative Assistants all of which were primary and cross check timekeepers. Many hours were spent by Executive and Management staff planning, assessing and redefining time and attendance procedures. The end result was an even distribution of employee to timekeeper ratio and a redistribution of 'other duties' from the timekeeper to other employees in order for the timekeepers to concentrate on timekeeping and crosschecking responsibilities.

The DEQ has also realized that with fewer timekeepers coupled with an increase in costing and required documentation, more time is needed for the certification of time and attendance records. We have made the necessary revisions to our policy to reflect this change. Additionally, we have included in this policy an emphasis on the responsibilities of employees and all levels of management to comply with all procedures set forth in policy to assure accuracy and completeness in all time and attendance records.

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In summary, the DEQ recognizes that some time and attendance records were not certified within our own internal timeframe. However, we do not feel that this issue gravitates to the level of a finding. New procedures have been established to expand the timeframe for certification. Management will continue, as always, to emphasize and support the accountability of all time and attendance records.

Should you have any questions, please contact Karen V. Schexnayder, Human Resources Director at 225-219-3850.

Sincerely,

Vince Sagnibene,
Undersecretary