

DEPARTMENT OF ENVIRONMENTAL QUALITY

STATE OF LOUISIANA

FINANCIAL AUDIT SERVICES

Procedural Report
Issued January 18, 2023

**LOUISIANA LEGISLATIVE AUDITOR
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Louisiana Legislative Auditor

Michael J. "Mike" Waguespack, CPA

Department of Environmental Quality



January 2023

Audit Control # 80220053

Introduction

The primary purpose of our procedures at the Department of Environmental Quality (DEQ) was to evaluate certain controls DEQ uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and accountability over public funds. In addition, we determined whether management has taken action to correct the findings reported in the prior report.

Results of Our Procedures

We evaluated DEQ's operations and system of internal control through inquiry, observation, and review of its policies and procedures, including a review of the applicable laws and regulations. Based on the documentation of DEQ's controls and our understanding of related laws and regulations, and the results of our analytical procedures, we performed procedures relating to fuel card access, internal audit, payroll and personnel, and the Waste Tire Management Program.

Follow-up on Prior-report Findings

We reviewed the status of the prior-report findings in DEQ's procedural report dated August 19, 2020. We determined that management has resolved the prior-report findings related to Inadequate Controls over the Waste Tire Management Program and Inadequate Controls over Fuel Cards. The prior-report finding related to Ineffective Internal Audit Function has not been resolved and is addressed again in this report.

Current-report Finding

Ineffective Internal Audit Function

For the second consecutive engagement, DEQ did not have an effective internal audit function and did not fully adhere to the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing (IIA Standards) during

fiscal years 2021 and 2022, increasing the risk that DEQ's internal control processes will not be effective or efficient. Although DEQ maintains an internal audit section (Audit Services) consisting of one internal auditor, internal audit resources were dedicated to various projects as requested by management, rather than the projects outlined in the annual internal audit plans developed based on Audit Services' risk assessments. The following deficiencies were noted:

- DEQ Audit Services issued three internal audit reports in fiscal year 2021, covering three of the seven internal audit risk areas identified in the 2021 annual audit plan. As of June 30, 2022, DEQ Audit Services had not issued an internal audit report since May 14, 2021, although the 2022 annual audit plan identified six risk areas.
- DEQ Audit Services does not have a Quality Assurance and Improvement Program and has not completed an annual internal assessment as required by IIA Standards.

An agency with an appropriation level of \$30 million or more is required by Louisiana Revised Statute (R.S.) 36:8.2 to have an internal audit function and to annually certify to the department Secretary that the internal audit function conforms to the IIA Standards. Considering DEQ was appropriated \$144 million for fiscal year 2021 and \$145 million for fiscal year 2022, an effective internal audit function is important to ensure that DEQ's assets are safeguarded and management's policies and procedures are uniformly applied.

Management should ensure that internal audit activities are performed in accordance with IIA Standards and contribute to the effectiveness and efficiency of DEQ operations, including internal control processes. Management concurred with the finding and outlined a plan of corrective action (see Appendix A).

Fuel Card Access

DEQ uses fuel cards to purchase fuel and pay for agency vehicle maintenance while in travel status for official agency travel. In our follow-up to the prior-report finding related to Inadequate Controls over Fuel Cards, we obtained an understanding of DEQ's policies and procedures for assigning fuel cards and PINs, as well as deactivating PINs and obtaining those fuel cards when employees separate from the department. We analyzed the employees with fuel card PINs that separated during the period July 1, 2020, through April 21, 2022. Based on the results of our procedures, we determined that management has resolved the prior-report finding related to Inadequate Controls over Fuel Cards.

Internal Audit

R.S. 36:8.2 requires agencies with appropriations exceeding \$30 million to establish an internal audit function that adheres to the IIA Standards. We performed

procedures to review DEQ's internal audit activities during fiscal years 2021 and 2022 for compliance with the relevant statute. Based on the results of our procedures and as noted in the Current-report Finding section, for the second consecutive engagement DEQ did not have an effective internal audit function and did not fully adhere to IIA Standards.

Payroll and Personnel

Salaries and related benefits comprised approximately 56% and 57% of DEQ's expenditures in fiscal years 2021 and 2022 (as of April 30, 2022), respectively. We obtained an understanding of DEQ's controls over the time and attendance function and reviewed 22 selected employee time statements processed between July 1, 2021, and April 30, 2022. In addition, we obtained an understanding of DEQ's controls over processing personnel changes and reviewed 32 selected personnel changes processed during the same time period to determine if the changes were made in accordance with DEQ policy and were properly approved. Based on the results of our procedures, DEQ had adequate controls in place to ensure timely review and approval of employee time statements, and to ensure that personnel changes were in accordance with State Civil Service rules.

Waste Tire Management Program

The Waste Tire Management Program was established by R.S. 30:2418 to reduce the volume of waste tires in Louisiana by facilitating a market for recycled waste tire material. Any fees collected from the sale of tires, appropriations, gifts, grants, or other monies received by DEQ are deposited into the Waste Tire Management Fund (Fund). Using the money in the Fund, DEQ provides subsidies to registered waste tire processors within the state of Louisiana that receive and process waste tires for use in approved projects.

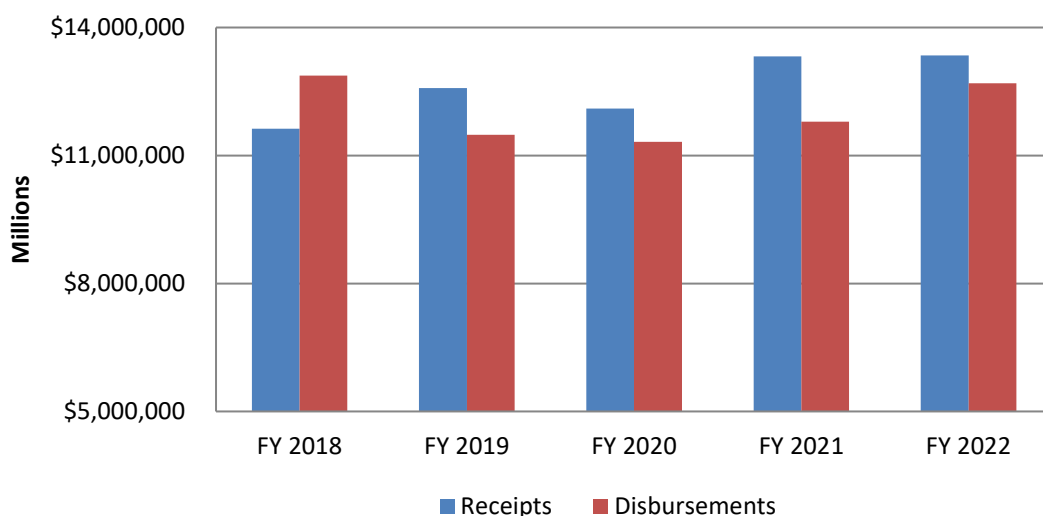
We obtained an understanding of DEQ's controls over fund expenditures, including controls over the accuracy of processor-reported weight data for two selected months from each of DEQ's five active processor sites. We also determined that DEQ is conducting audits of its active processors to determine the accuracy of the ending inventory of waste tire material and whole waste tires. The weight data and waste tire inventory are both used in calculating the amounts paid to processors. Based on the results of our procedures, DEQ had adequate controls in place to ensure that Fund expenditures were made for the purposes allowed by state law.

Trend Analysis

We compared the most current and prior-year financial activity using DEQ’s Annual Fiscal Reports and/or system-generated reports and obtained explanations from DEQ’s management for any significant variances.

We also prepared an analysis of the receipts and disbursements of the Waste Tire Management Program (WTMP) for fiscal years 2018 through 2022 (see Exhibit 1). In four of the past five fiscal years, receipts collected for waste tires exceeded program disbursements. While program receipts remained about the same from fiscal year 2021 to fiscal year 2022, program disbursements increased because of an increase in processor requests for payment.

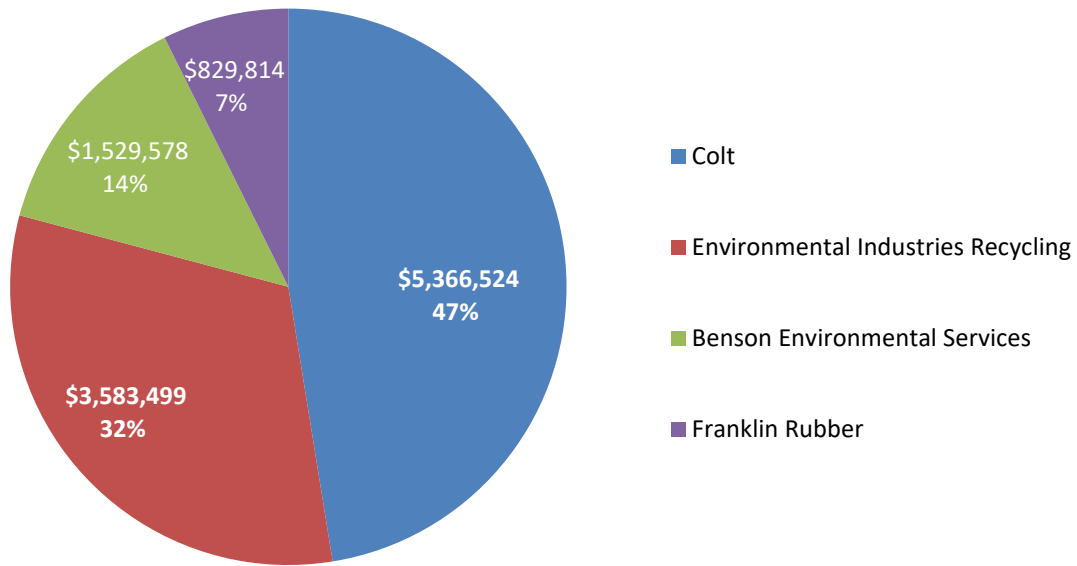
Exhibit 1
WTMP Receipts and Disbursements by Fiscal Year (FY)



Source: Prepared by legislative auditor’s staff using agency generated reports

We also presented DEQ’s payments to processors in fiscal year 2022 for informational purposes (see Exhibit 2). Of fiscal year 2022 payments totaling nearly \$11.3 million, approximately \$9 million (79%) were made to two of the four processors.

Exhibit 2
Fiscal Year 2022 Processor Payments
(Total - \$11,309,415)



Source: Prepared by legislative auditor’s staff using agency generated reports

Under Louisiana Revised Statute 24:513, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

Michael J. "Mike" Waguespack, CPA
Legislative Auditor

KJ:MK:BQD:EFS:aa

DEQ2022

APPENDIX A: MANAGEMENT'S RESPONSE



State of Louisiana
DEPARTMENT OF ENVIRONMENTAL QUALITY
OFFICE OF THE SECRETARY

December 28, 2022

Michael J. "Mike" Waguespack, CPA
Office of the Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

This is the Department of Environmental Quality's (DEQ) response to the repeat finding "Ineffective Internal Audit Function".

LDEQ agrees with this finding. LDEQ will continue to leverage the Audit Services resources currently available to ensure that internal audit activities are completed in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing (IIA Standards) annually. In addition, the LDEQ internal auditor plans to implement the following corrective actions by December 31, 2023.

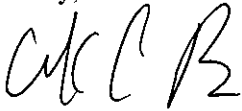
- Continuous tracking of non-internal audit engagement related administrative functions such as internal and external LDEQ meetings, unforeseen IT/OTS issues, Louisiana Legislative Auditor (LLA) requests, and internal auditor professional development hours to better predict the amount of administrative hours that should be allocated when creating the annual internal audit plan.
- Continuous evaluation of the scope and progress of internal audit engagements to identify and communicate audit program modifications that should be made to help ensure that audits are completed timely and within the projected timelines established on the annual internal audit plan.
- Continuous collaboration with LDEQ Human Resources to identify potential student workers that could assist with routine and less complex Audit Services responsibilities.
- Establish and implement internal audit Quality Assurance and Improvement Program as outlined in the Quality Assurance section of the LDEQ Internal Audit Charter to ensure that the LDEQ internal audit function conforms to the IIA Standards.
- Allocation of compliance auditor (Waste Tire and Motor Fuel Trust Fund auditor) hours to internal audit projects as needed.

In addition, the LDEQ internal auditor is currently in the process of performing an internal audit self-assessment for fiscal year 2023 using the most recent Quality Assessment Manual published by the IIA.

An independent review and validation of the internal auditor's self-assessment is scheduled for the fall of 2023.

As always, we appreciate the assistance of the Louisiana Legislative Auditor and will continue to make improvements to all aspects of LDEQ operations. We look forward to your office's continued assistance in moving forward with this effort.

Sincerely,

A handwritten signature in black ink, appearing to read 'C. Carr Brown'.

Chuck Carr Brown, Ph.D.
Secretary

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Department of Environmental Quality (DEQ) for the period from July 1, 2020, through June 30, 2022. Our objective was to evaluate certain controls DEQ uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and accountability over public funds. The scope of our procedures, which is summarized below, was significantly less than an audit conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. We did not audit or review the DEQ's Annual Fiscal Reports, and accordingly, we do not express an opinion on those reports. The DEQ's accounts are an integral part of the state of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

- We evaluated DEQ's operations and system of internal controls through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to DEQ.
- Based on the documentation of DEQ's controls and our understanding of related laws and regulations, and results of our analytical procedures, we performed procedures relating to fuel card access, internal audit, payroll and personnel, and the Waste Tire Management Program.
- We compared the most current and prior-year financial activity using DEQ's Annual Fiscal Reports and/or system-generated reports to identify trends and obtained explanations from DEQ's management for any significant variances that could potentially indicate areas of risk.

The purpose of this report is solely to describe the scope of our work at DEQ, and not to provide an opinion on the effectiveness of DEQ's internal control over financial reporting or on compliance. Accordingly, this report is not intended to be, and should not be, used for any other purpose.