

DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
PROCEDURAL REPORT
ISSUED AUGUST 19, 2020

**LOUISIANA LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

ASSISTANT LEGISLATIVE AUDITOR
FOR STATE AUDIT SERVICES
NICOLE B. EDMONSON, CIA, CGAP, MPA

DIRECTOR OF FINANCIAL AUDIT
ERNEST F. SUMMERVILLE, JR., CPA

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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



Department of Environmental Quality

August 2020

Audit Control #80200013

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 finding 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 on selected controls and transactions relating to fuel card access, internal audit, contract expenditures, payroll and personnel, Hazardous Waste Site Cleanup Fund expenditures, and revenue and receivables.

Follow-up on Prior-report Finding

We reviewed the status of the prior-report finding in DEQ's procedural report dated July 25, 2018. The prior-report finding related to Inadequate Controls over the Waste Tire Management Program has not been resolved and is addressed again in this report.

Current-report Findings

Inadequate Controls over the Waste Tire Management Program

For the seventh consecutive engagement, the Department of Environmental Quality (DEQ) has not fully implemented effective monitoring procedures over the Waste Tire Management Program (WTMP) to ensure that waste tire data used to calculate subsidized payments to waste tire processors is reasonable. Because WTMP payments are based on supporting documentation submitted by the waste tire processors, there is an incentive and opportunity for providers to overstate the amount of processed material contained in payment requests submitted to DEQ. During our current engagement, we found that although DEQ personnel input waste tire data into

a worksheet that would allow for analytical analysis, DEQ could not provide evidence of timely follow-up on all variances exceeding its internal threshold. In addition, other data anomalies identified by the auditor within the analytical worksheet were not addressed until the auditor brought them to DEQ's attention. As a result, the risk still exists that processors could overstate eligible tire inventory weights and/or claim reimbursement for ineligible tires without being detected by DEQ.

For the period July 1, 2007, through June 30, 2020, DEQ disbursed \$130.6 million in subsidies to six waste tire processors. We first reported weaknesses in controls over payments to WTMP processors in our engagement that covered fiscal years 2008 and 2009. WTMP 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. 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. Good internal controls require that management implement effective monitoring procedures that will provide reasonable assurance of the accuracy of data used to calculate subsidies.

In response to a similar finding in the prior engagement, DEQ provided its corrective action letter dated July 2, 2018, and indicated that it had implemented a worksheet that would allow for analytical analysis. During our current engagement, we verified that the waste tire section continued to maintain this spreadsheet; however, DEQ has not established procedures requiring timely follow-up action on relevant variances and the retention of evidence supporting the follow-up. As a result, DEQ was not able to provide evidence that identified variances were being addressed in a timely manner.

Management also indicated in the corrective action letter referred to above that DEQ Audit Services would continue its efforts in implementing effective and timely waste tire processor ending inventory audits and that DEQ Audit Services' annual compliance audit plans would include audit hours for random inventory audits of each permitted waste tire processing facility. DEQ WTMP personnel represented that ending inventory audits were conducted during calendar year 2018, and the information was provided to DEQ Audit Services. DEQ Audit Services represented that it was unable to confirm the accuracy of the inventories reported by these processors because it could not reconcile variances between unmanned aircraft systems inventory measurements, manual calculations performed by DEQ engineers, and the amounts reported by the processors. As a result, DEQ Audit Services was unable to finalize or issue any final inventory audit reports. Furthermore, DEQ's Audit Services has not issued any ending inventory audit reports of waste tire processors since fiscal year 2014.

As part of its quality control, DEQ did develop a checklist to be used when reviewing and processing each waste tire processor's monthly reports and requests for payments. However, DEQ did not establish procedures requiring the completion and retention of these checklists and was unable to provide evidence that these checklists were being completed for all requests for payment processed.

Management should establish and fully implement written program monitoring procedures, to include investigating analytical variances timely, recouping any overpayments, conducting inventory audits, and retaining adequate documentation of the procedures performed to ensure that subsidies provided to waste tire processors are reasonable. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 1-2).

Inadequate Controls over Fuel Cards

DEQ did not timely deactivate fuel card personal identification numbers (PINs) for individuals upon separation of employment with the department and DEQ did not monitor PINs to ensure that only employees with a business need had access, increasing the risk of unauthorized use.

During our procedures, we identified 55 employees with PINs during the period July 1, 2018, through February 11, 2020, whose PINs were not deactivated until six to 1,706 days (or an average of 233 days) after separation of employment from DEQ. Access for 19 of those employees was not terminated until auditors informed DEQ of the former employees' active fuel card. In addition, we identified a former department contractor who was provided a fuel card PIN, but DEQ did not timely deactivate the PIN after the contractor's services were terminated. Due to record retention policies, DEQ was unable to provide the contractor's exact termination date. DEQ personnel stated that records of independent contractors are retained for four years; therefore, we concluded that this PIN should have been deactivated at least four years ago.

DEQ procedures require Human Resources to send separation notices upon employee separation to a specified list of individuals, including the person responsible for terminating fuel card access. The responsible party is then to terminate the employee's fuel card access on or before the employee's separation date. Of the 55 employees identified above, five (9%) of the separation notices were not sent out on or before the employee's separation date. These notices were sent between two and 26 days (or an average of 10 days) after the employee separation date. In addition, a separation notice was not provided for two (4%) of the 55 employees. The remaining 50 untimely access deactivations were the result of access not being terminated after receipt of the separation notice.

We also identified three active employees with more than one active PIN at the time of our procedures. DEQ represented that this happens if an employee forgets their original PIN and does not indicate that they already had one when they request a new one. DEQ concluded that the multiple PINs identified were not reasonable and deactivated the PINs not in use for each of the three employees.

DEQ should enforce its policies and procedures to ensure separation notices are sent timely and each employee's fuel card PIN is deactivated on or before termination of employment with the department. In addition, DEQ should ensure that PINs are actively monitored to ensure only employees with a business need have access and to identify and deactivate any unneeded PINs. DEQ concurred with the finding and outlined a corrective action plan (see Appendix A, page 3).

Ineffective Internal Audit Function

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 2019 and 2020, 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 has not issued an internal audit report since February 6, 2018. In addition, as of January 31, 2020, Audit Services had not performed audit procedures as outlined in the annual audit plans for fiscal years 2019 and 2020.
- 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 \$135 million for fiscal year 2019 and \$140 million for fiscal year 2020, 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 did not ensure that DEQ Audit Services had sufficient resources to perform adequate internal audit activities in accordance with IIA Standards.

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, pages 4-5).

Fuel Card Access

DEQ uses fuel cards (FuelTrac) to purchase fuel and pay for agency vehicle maintenance while in travel status for official agency travel. 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 agency. Based on the results of our procedures and as noted in the Current-report Findings section, DEQ did not have adequate controls over fuel card access.

Internal Audit

R.S. 36:8.2 requires agencies with appropriations exceeding \$30 million to establish an internal audit function that adheres to the Institute of Internal Auditors (IIA), International Standards for the Professional Practice of Internal Auditing. We performed procedures to review DEQ's internal audit activities during fiscal years 2019 and 2020 for compliance with the relevant statute. Based on the results of our procedures and as noted in the Current-report Findings section, DEQ did not have an effective internal audit function and did not fully adhere to IIA standards.

Contract Expenditures

We obtained an understanding of controls over contracts and related expenditures. We selected 20 contracts and examined the contracts and relevant supporting documentation to determine if established controls were operating and if DEQ complied with relevant state law. Based on the results of our procedures, DEQ had adequate controls in place to ensure that contracts were properly authorized and administered in accordance with state law, and contract expenditures were made for proper business purposes and were accurately recorded in the financial records.

Payroll and Personnel

Salaries and related benefits comprised approximately 57% and 59% of DEQ's expenditures in fiscal years 2019 and 2020 through December 31, 2019, 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, 2018, and December 31, 2019. In addition, we obtained an understanding of DEQ's controls over processing personnel changes and reviewed 20 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. We also reviewed selected salary changes occurring between July 1, 2018, and February 11, 2020, to determine if the changes in pay were appropriate and in accordance with State Civil Service rules. 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 and salary changes were in accordance with State Civil Service rules.

Hazardous Waste Site Cleanup Fund Expenditures

R.S. 30:2205 establishes the Hazardous Waste Site Cleanup Fund (Fund). DEQ receives funding from deposits into the Fund, which consist of judgments, settlements, assessments of civil or criminal penalties, and funds recovered by suit or settlement from potentially responsible parties for active or abandoned site remediation or cleanup, and other donated or appropriated monies dedicated to hazardous waste sites. Per R.S. 30:2205, funding is used to defray the cost of investigation, testing, containment, control, and cleanup of hazardous waste sites, to provide

money or services as the state share of matching funds for federal grants, to defray the cost of securing and quarantining hazardous waste sites, including the acquisition of rights-of-way, easements, or title, and to pay the operating expenses of the inactive and abandoned sites activities.

We obtained an understanding of DEQ's controls over fund expenditures and reviewed 18 selected non-payroll expenditures occurring during the period July 1, 2018, through December 31, 2019. In addition, we reviewed the payroll expenditures charged to the fund to ensure the expenditures were for employees assigned to work on activities related to hazardous waste sites. 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.

Revenue and Receivables

DEQ's main sources of funding are from collections of various fees, fines, and penalties. We obtained an understanding of DEQ's controls over the monitoring of and accounting for the receipt of these funds. We examined 30 selected invoice payments received during the period July 1, 2018, through December 31, 2019, to ensure established controls over the receipt and recording of these payments were operating effectively. Based on the results of our procedures, DEQ had adequate controls in place to ensure that the receipt of invoice payments were adequately supported and accurately recorded in the financial records.

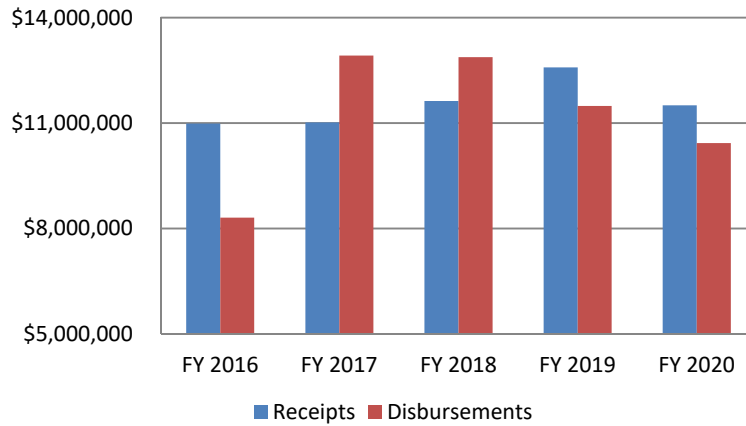
In addition, we obtained an understanding of DEQ's controls over the collection of delinquent debts. R.S. 47:1676 requires state agencies to refer all delinquent debts to the Office of Debt Recovery (ODR) within the Louisiana Department of Revenue when the debt has been final for 60 days. We reviewed 15 selected debts that had been referred to ODR as of January 15, 2020, to ensure that DEQ's controls over collection of these debts were operating effectively. Based on the results of these procedures, DEQ had adequate controls in place to ensure compliance with its established procedures to determine debts to be final before referral to ODR.

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. Management provided reasonable explanations for all significant variances.

We also prepared an analysis of the receipts and disbursements of the Waste Tire Management Program (WTMP) for fiscal years 2016 through 2020 (see Exhibit 1). In three of the past five fiscal years, fees collected for waste tires exceeded program disbursements. In fiscal year 2016, amounts payable to a processor were withheld due to litigation; however, the outstanding payments were made through a settlement in 2017. In fiscal years 2019 and 2020, processor requests for payment were lower than in previous years.

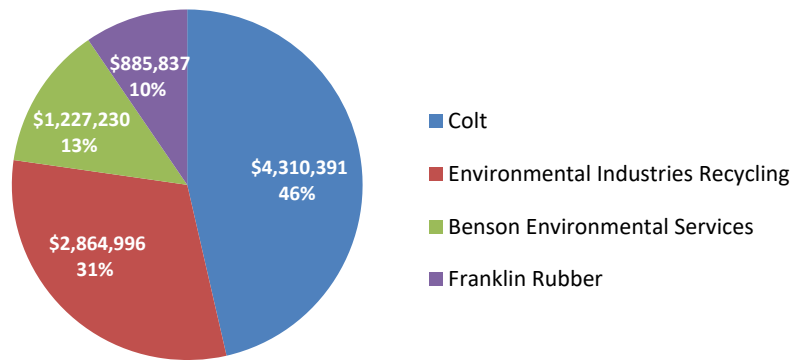
Exhibit 1
WTMP Receipts and Disbursements by Fiscal Year (FY)



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

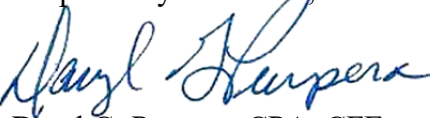
We also presented DEQ’s payments to processors in fiscal year 2020 for informational purposes (see Exhibit 2). Of fiscal year 2020 payments totaling nearly \$9.3 million, approximately \$7.2 million (77%) were made to two of the four processors.

Exhibit 2
Fiscal Year 2020 Processor Payments
(\$9,288,454)



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,

 Daryl G. Purpera, CPA, CFE
 Legislative Auditor

APPENDIX A: MANAGEMENT'S RESPONSES



State of Louisiana

DEPARTMENT OF ENVIRONMENTAL QUALITY OFFICE OF MANAGEMENT AND FINANCE

August 3, 2020

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"**.

LDEQ agrees with this finding. As noted in our corrective action letter dated July 2, 2018, LDEQ has implemented a multi-layer Waste Tire Management Program (WTMP) data analysis process to better detect overstatements in processor inventory and reimbursement requests. Several layers of data quality control (qc), i.e., electronic checks, hard copy checks, etc., on the various reports submitted monthly by the waste tire processors using the LaGov SAP software have been implemented by WTMP staff since 2018. As recommended, LDEQ will reinforce the improvements we have made to the WTMP over the last several years by developing comprehensive written WTMP Standard Operating Procedures (SOP's) that will include:

- Data variance follow-up processes and response timelines.
- Processor payment checklist completion, review, approval and retention processes.
- Data integrity and security processes.
- Continuous quality control reviews by management.

In regards to waste tire processing facility inventory audits, LDEQ initiated six processor inventory audits between May 1, 2018 and July 2, 2018. Unanticipated variances between the inventory calculations derived using LDEQ unmanned aircraft systems (UAS) and the manual calculations derived by LDEQ engineers resulted in assessment delays. After several months of recalculations and attempted reconciliations by both the UAS program manager and LDEQ engineers, Audit Services could not confidently confirm the accuracy of the inventories reported by these processors on the corresponding Monthly Processor Payment Requests. As a result, Audit Services did not finalize or issue any final processor inventory audit reports.

Going forward, LDEQ Audit Services will continue to enhance our processor inventory audit processes by establishing and implementing a comprehensive WTMP processor inventory audit SOP that will:

- Establish standard and agreed upon inventory calculation methods to be used in processor inventory audits going forward.

- Establish timelines and schedules for planning, arranging and conducting processor inventory audits.
- Establish a simplified standard processor inventory audit report format to help ensure future audit reports are issued timely by Audit Services.

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

Sincerely,



Karyn Andrews
Undersecretary

John Bel Edwards
Governor



Chuck Carr Brown, Ph.D.
Secretary

Louisiana Department of Environmental Quality Office of Management & Finance

April 22, 2020

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 Fuel Cards"**.

DEQ agrees with the finding and agrees that our policy and procedures should have been followed. HR sends an e-mail to various sections throughout the agency (including General Services) when they are notified of an employee separation. General Services is responsible for issuing and cancelling FuelTrac cards. Oftentimes no advance notification is given to HR that an employee is separating, making it impossible for them to notify General Services in advance. Financial Services Division did review all transactions of the 55 employees identified and verified that no charges were made after separation. DEQ yes will implement the following to assist in preventing issues with FuelTrac going forward:

- Verification of FuelTrac PINs will be added to the employee exit packet. If an employee notifies HR in advance that they are separating, they receive an exit packet. This packet is walked around to various sections in the agency to ensure that access is terminated. This will offer a second review by General Services in the event an e-mail is not received for advance separation notice.
- DEQ General Services section will review the list of PIN holders on a quarterly basis and verify that all holders are current employees or contractors. Any non-current employees or contractors that have a FuelTrac card issued to them, will immediately be de-activated.
- DEQ General Services will review the list of PIN holders on an annual basis and verify that all holders have used their card at least once in the preceding six months and have only one number assigned to them. If no usage has been noted, the number will be de-activated, and if duplicate numbers have been assigned, the unused number will be de-activated.

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

Sincerely,

A handwritten signature in blue ink that reads "Karyn Andrews".

Karyn Andrews
Undersecretary



Louisiana Department of Environmental Quality Office of Management & Finance

April 22, 2020

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 "**Ineffective Internal Audit Function**".

LDEQ agrees with this finding. LDEQ will work to better leverage Audit Services resources to ensure that all 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. Additionally, the internal auditor will implement the following procedural changes going forward:

- 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.
- Establish a rotating schedule of routine, less complex, audits to include on the annual internal audit plan (Purchasing/Travel Card, fleet management, petty cash, employee time sheet, Office of Technology Services billing) to help ensure that an acceptable number of internal audit reports are issued annually.
- Allocating compliance auditor (Waste Tire and Motor Fuel Trust Fund auditor) hours to internal audit projects when available.
- 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 collaboration with LDEQ human resources to identify potential or currently employed student workers that could be assist with routine and less complex Audit Services responsibilities.
- Establish and enforce the 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.

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

Sincerely,

A handwritten signature in blue ink that reads "Karyn Andrews". The signature is fluid and cursive, with a long horizontal flourish at the end.

Karyn Andrews
Undersecretary

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Department of Environmental Quality (DEQ) for the period from July 1, 2018, through June 30, 2020. 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. 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 on selected controls and transactions relating to fuel card access, internal audit, contract expenditures, payroll and personnel, Hazardous Waste Site Cleanup Fund expenditures, and revenue and receivables.
- 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.