

DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
PROCEDURAL REPORT
ISSUED JULY 25, 2018

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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



Department of Environmental Quality

July 2018

Audit Control # 80180080

Introduction

The primary purpose of our procedures at the Department of Environmental Quality (DEQ) was to evaluate certain controls that DEQ uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and to provide overall accountability over public funds.

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 laws and regulations applicable to DEQ. 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 Environmental Trust Fund fees, penalties and settlements, LaCarte purchasing card expenditures, and professional services contracts.

Follow-up on Prior-report Findings

Our auditors reviewed the status of the prior-report findings identified in our procedural report dated September 28, 2016. We determined that management has resolved the prior-report finding for Ineffective Internal Audit Function. The finding related to Inadequate Controls over the Waste Tire Management Program was not resolved and is addressed again in this report.

Current-report Finding

Inadequate Controls over the Waste Tire Management Program

For the sixth consecutive engagement, 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, they are not identifying or following up on variances. 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, 2017, DEQ disbursed \$99.4 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 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. 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 August 4, 2016, and indicated that it had engaged the services of a statistician to determine if the department was accurately measuring whether the subsidized payments to waste tire processors were reasonable. Additionally, management stated that the department's Audit Services would continue its efforts to perform effective and timely ending inventory audits on processors, and would present its findings and recommendations in an audit report to management.

The department contracted with a statistician in June 2016 to review data the department collected from tire processors, to review the methodology developed by the department, and develop a new methodology if appropriate for the department to use for future analysis. The statistician recommended that a third-party auditor randomly collect and weigh approximately 5 to 10 passenger tires and 3 to 5 tires of each of the other types, per month. However, management did not implement the statistician's recommendations. Furthermore, DEQ's Audit Services division has not issued any ending inventory audit reports of waste tire processors since fiscal year 2014.

Management should fully implement program monitoring procedures, which include investigating analytical variances, recouping any overpayments, and conducting random inventory audits, to ensure that subsidies provided to waste tire processors are reasonable. Management concurred with the finding and provided a corrective action plan (see Appendix A).

Other Results of Our Procedures

Environmental Trust Fund Fees

DEQ's largest source of funding is from deposits into the Environmental Trust Fund, which collects fees for water quality, air quality, ground water protection, radiation, hazardous waste, solid waste, lab certification, underground storage trust fund, and other miscellaneous fees. We obtained an understanding of DEQ's controls over collections of air quality, water quality, ground water protection, and solid waste fees and examined 40 deposits during the period July 1,

2016, through January 31, 2018. Based on the results of our procedures, DEQ had adequate controls in place to ensure that these collections were properly authorized and administered in accordance with state law, adequately supported, and accurately recorded in the financial records.

Penalties and Settlements

DEQ's Office of Environmental Compliance, Enforcement Division issues fines and penalties as a result of failure to comply with the Environmental Quality Act or other environmental regulations. Funds recovered through judgments, settlements, and assessments of civil or criminal penalties from potentially responsible parties are paid into the State Treasury and ultimately designated for the Hazardous Waste Site Cleanup Fund. We obtained an understanding of DEQ's controls over collecting these funds and examined 15 penalties and 15 settlements issued by the department during the period July 1, 2016, through January 31, 2018. Based on the results of our procedures, DEQ has adequate procedures in place to ensure that these funds were properly supported, authorized by the attorney general, administered in accordance with state law, and timely collected.

LaCarte Purchasing Card Expenditures

DEQ participates in the State of Louisiana's LaCarte Purchasing Card program for general office supplies and administrative expenditures. Due to inherent risks that exist with these cards, we obtained an understanding of DEQ's controls over access to and use of the cards.

We analyzed purchasing card transaction listings for the period July 1, 2017, through March 31, 2018, and reviewed selected transactions. Based on the results of our review, DEQ had adequate controls in place to ensure that purchases were approved and made for proper business purposes, sufficient documentation was maintained to support purchases, and purchases were properly reconciled to invoices and receipts.

Professional Services Contracts

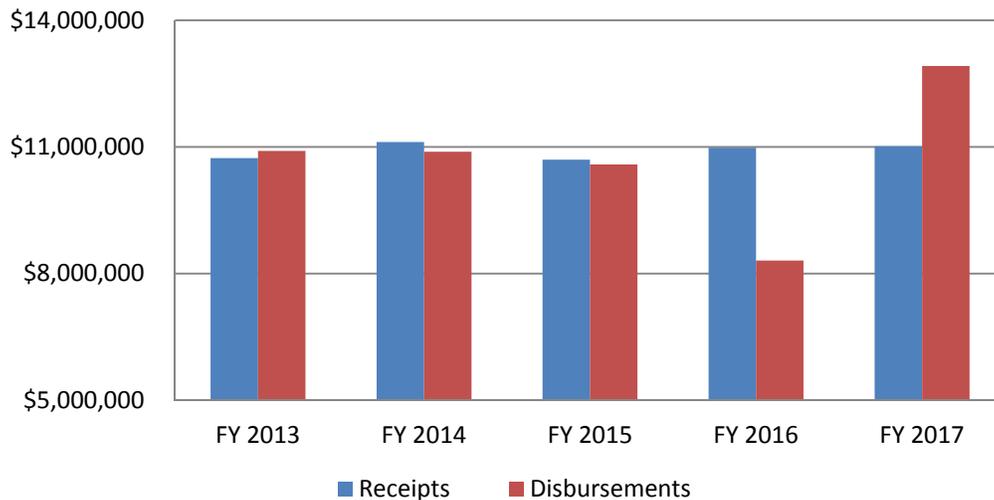
DEQ primarily utilizes professional services contracts for environmental solutions consulting. DEQ's contracts in effect during the period under review totaled approximately \$18 million. We obtained an understanding of DEQ's controls over professional services contracts and examined 20 contracts for compliance with state law. Based on the results of our procedures, DEQ has adequate controls to ensure that professional services 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.

Trend Analysis

We compared the most current and prior-year financial activity using the DEQ’s annual fiscal reports and/or system-generated reports to identify trends and obtained explanations from DEQ’s management for significant variances that could potentially indicate areas of risk. Management provided reasonable explanations for all significant variances.

We prepared an analysis of the receipts and disbursements of the WTMP for fiscal year 2013 through fiscal year 2017 (see Exhibit 1). Fees collected for waste tires exceeded program disbursements in fiscal year 2016 since amounts payable to a processor were withheld due to litigation. However, a settlement resolved the litigation in fiscal year 2017 and the outstanding payments were made.

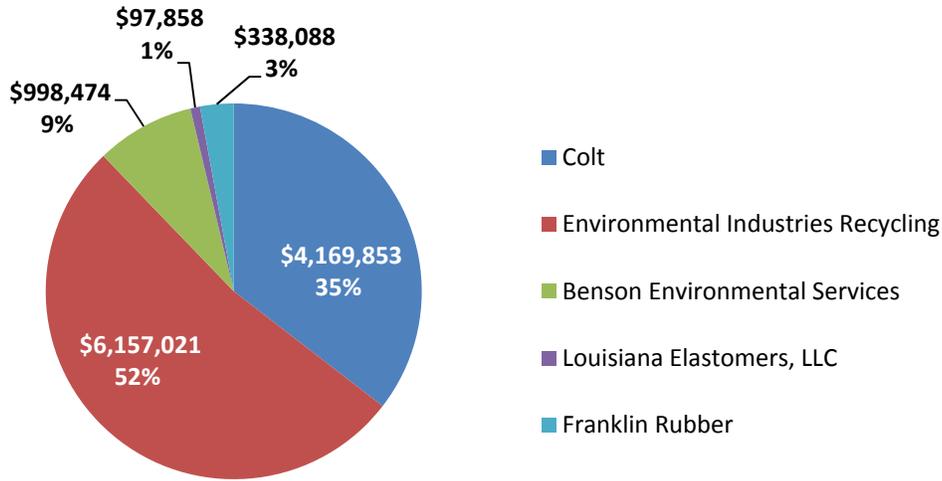
Exhibit 1
WTMP Receipts and Disbursements by Fiscal Year (FY)



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

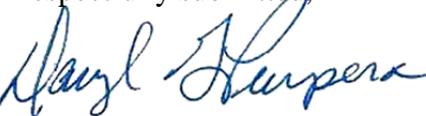
We also presented DEQ’s payments to processors in fiscal year 2017 for informational purposes (see Exhibit 2). Of fiscal year 2017 payments totaling nearly \$11.8 million, approximately \$10.3 million were made to two of the five processors.

Exhibit 2
Fiscal Year 2017 Processor Payments
(\$11,761,294)



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

APD:EM:BQD:EFS:aa

DEQ2018

APPENDIX A: MANAGEMENT'S RESPONSE



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

July 2, 2018

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"**.

DEQ agrees with this finding. Management continues its efforts in implementing effective monitoring procedures to ensure the waste tire data used to calculate subsidized payments to the processors are reasonable. Although the department has not fully implemented its procedures, DEQ has made significant improvements in the program and offers the following information and actions that will be taken:

- At the time of the audit the methodology (worksheet) which can be used to identify variances was not in place. It is currently in place and implemented. Using this methodology in reviewing data since January 2016 reveals only one slight variance for May 2018. The waste tire section has initiated its response and is working with the processor to confirm and resolve that variance. It should also be noted that other controls used allow DEQ to evaluate important data regarding end-use projects, cumulative collected/processed/marketed tires and waste tire material, as well as track payments to processors. DEQ continues to internally evaluate and improve existing QA/QC procedures and develop/implement/evaluate new procedures to ensure data used to calculate subsidized payments to processors is accurate.
- In June 2016, DEQ contracted with a statistician to review and evaluate methodologies used by the department at that time in order to more accurately assess tire masses (weights). Part of that evaluation consisted of a department effort to weigh tires of all categories at Louisiana processors in order to obtain actual values of tire masses (weights) which can then be used to calculate accurate Passenger Tire Equivalents (PTE). As a result of this effort, DEQ has established sufficient and supportable background tire weight/PTE values. In his July 13, 2017 report the statistician provided the department recommendations in the form of future concerns which outlined suggestions regarding additional sampling of tires to reflect current conditions. The statistician's recommendations included additional sampling by a third party auditor on a monthly basis. While DEQ acknowledges the benefits of additional sampling and has internally determine an appropriate frequency for future sampling, costs associated with such an endeavor (leasing scales, personnel costs, vehicle usage, and other equipment) cannot be sustained by the department on a monthly basis. Additionally, market condition changes, i.e., tire sizes/masses, while dynamic, change over time such that monthly sampling would not yield valuable information, as data are not likely to change appreciably from one month or one year to the next.

Therefore, the agency has determined that it is most feasible and appropriate at this time to weigh tires at all operating, permitted processor facilities once every three years. This ensures the data obtained is reflective of any changes in market conditions and that the sampling results provide an updated understanding of the tire weights/PTEs on a statewide basis. Should this frequency require adjusting in the future, the agency will do so as needed.

- During the audit period, DEQ Audit Services, along with DEQ engineers and the DEQ Unmanned Aircraft Systems (UAS) Program Manager, has conducted ending inventory audit measurements at three active waste tire processing facilities. Two measurements were performed on May 1, 2018 for April 2018 ending inventory. The third was performed on May 31, 2018 for May 2018 ending inventory, with the assistance of the UAS Program Manager to map the facility and generate volumetric calculations. On June 7, 2018, Audit Services also assisted the UAS Program Manager with flights to capture imagery for volumetric calculations at a fourth waste tire processing facility. Finally, on July 2, 2018, Audit Services will visit the remaining two waste tire processing facilities to perform ending inventory measurements for June 2018.
- Each of these ending inventory audits is at a different stage in the audit process. DEQ Audit Services continues its efforts in implementing effective and timely waste tire processor ending inventory audits. With a more focused audit scope and streamlined audit report, DEQ Audit Services' goal is to issue an ending inventory audit report for each of these six facilities by the end of August 2018. Moving forward, DEQ Audit Services' annual compliance audit plans will include audit hours for random ending inventory audits of each permitted waste tire processing facility.

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

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Department of Environmental Quality (DEQ) for the period from July 1, 2016, through June 30, 2018. Our objective was to evaluate certain internal controls DEQ uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and to provide overall accountability over public funds. The scope of our procedures, which are 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 DEQ's Annual Fiscal Report, and accordingly, we do not express an opinion on that report. DEQ 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 control 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 the results of our analytical review, we performed procedures on selected controls and transactions relating to Environmental Trust Fund fees, penalties and settlements, LaCarte purchasing card expenditures, and professional services contracts.
- 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 significant variances.

The purpose of this report is solely to describe the scope of 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.