

DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
PROCEDURAL REPORT
ISSUED MAY 6, 2015

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

May 6, 2015

The Honorable John A. Alario, Jr.,
President of the Senate
The Honorable Charles E. "Chuck" Kleckley,
Speaker of the House of Representatives
Ms. Peggy M. Hatch, Secretary
Department of Environmental Quality

Dear Senator Alario, Representative Kleckley, and Secretary Hatch:

This report includes the results of our procedures at the Department of Environmental Quality (DEQ) for the period from July 1, 2013, through April 13, 2015. Our objective 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. I hope the information in this report will assist you in your legislative and operational decision-making processes.

We would like to express our appreciation to management and staff of DEQ for their assistance during our work.

Sincerely,

A handwritten signature in blue ink that reads "Daryl G. Purpera". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Daryl G. Purpera, CPA, CFE
Legislative Auditor

GM:EM:BQD:EFS:aa

DEQ2015

Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



Department of Environmental Quality

May 2015

Audit Control # 80150040

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.

The mission of DEQ is to provide service to the people of Louisiana through comprehensive environmental protection in order to promote and protect health, safety, and welfare while considering sound policies regarding employment and economic development.

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, we performed procedures on selected controls and transactions relating to the LaCarte purchasing card, travel, and Fueltrac card activity, permits, fines and penalties, and fleet management.

Follow-Up on Prior-Year Findings

Our auditors reviewed the status of the prior-year findings reported in a management letter dated November 13, 2013. We determined that management has resolved the prior-year findings related to inadequate controls over time and attendance records and lack of segregation of duties over waste tire fee audit collections. The prior-year finding related to inadequate controls over the Waste Tire Management Program has not been resolved and is addressed again in this report.

Current-Year Finding

Inadequate Controls over the Waste Tire Management Program

DEQ has not 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. This increases the risk that subsidies to waste tire processors could be based on inaccurate data, resulting in overpayments. For the period July 1, 2007, through June 30, 2014, DEQ has disbursed \$71.1 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.

In response to a similar finding in the prior engagement, DEQ provided its corrective action letter dated October 18, 2013, and outlined its intent to improve the timeframe for completing ending inventory audits of processors and reporting findings and recommendations to management. Further, management stated that the WTMP staff had developed 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. Management stated that two years of data had been uploaded to spreadsheets, and WTMP staff was reviewing the data to determine a reasonable variance from the passenger tire equivalent. It would then be determined what course of action would be taken in the event of an unreasonable variance.

During our current engagement, we determined that although DEQ's internal auditor conducted ending inventory audits and WTMP staff developed analytical procedures to determine the reasonableness of the waste tire data, management has not implemented corrective action on many of the internal audit's recommendations and has not investigated analytical variances that could be indicative of potential programmatic abuse.

Management should finalize the development and implementation of monitoring procedures over payments to waste tire processors, including the investigation of analytical variances and/or other indicators of potential programmatic abuse, to ensure that subsidies provided to waste tire processors are reasonable. Management concurred in part with the finding and provided a corrective action plan (see Appendix A).

Other Results of Our Procedures

LaCarte and Travel Expenses

DEQ participates in the state of Louisiana's LaCarte purchasing card program for general office supplies and administrative expenses. DEQ had adequate controls to ensure that purchases were approved and made for proper business purposes; the card user did not exceed purchasing limits; sufficient documentation was maintained to support purchases; and purchases were properly reconciled to invoices and receipts.

DEQ incurs most travel expenses through the use of travel cards and reimbursements to employees. Due to inherent risks that exist with travel expense, we obtained an understanding of the applicable state laws and department policies and controls regarding travel payments. DEQ had adequate controls to ensure that travel expenses were approved, documented, in compliance with state laws, and reconciled to receipts and invoices.

Fueltrac Card Expenses

DEQ uses fuel cards (Fueltrac) for minor vehicle repairs and maintenance and to purchase fuel. Due to inherent risks that exist with fuel cards, we obtained an understanding of DEQ's controls over access to and use of the cards and reviewed selected transactions. DEQ had adequate controls to ensure that purchases were approved and used for proper business purposes; sufficient documentation was maintained to support purchases; and purchases were properly reconciled to invoices and vehicle logs.

Permits

The Office of Environmental Services within DEQ is charged with ensuring that the citizens have a clean and healthy environment to live and work in for present and future generations. One of the ways this is accomplished is by providing permitting activities consistent with laws and regulations. DEQ issues water, air, and waste permits. Due to inherent risks that exist with the issuance of permits, we obtained an understanding of the applicable state laws and department policies and controls regarding permits. We also reviewed selected transactions to determine if: (1) criteria for a billable permit were met prior to the assessment of an annual fee; (2) final assessment of fees for permits was properly authorized and in accordance with the approved fee schedule; and (3) fees were properly recorded, approved, and timely deposited, and in compliance with state laws.

Fines and Penalties

The Office of Environmental Compliance within DEQ is charged with ensuring the public and occupational welfare of the people and environmental resources of Louisiana by conducting inspections of permitted facilities and activities, responding to environmental emergencies, and issuing sound enforcement actions. Due to inherent risks that exist with the issuance of fines and penalties, we obtained an understanding of the applicable state laws and department policies and controls regarding fines and penalties. We also reviewed selected transactions to determine if

enforcement actions (fines and penalties) were properly issued to violators, calculations were reasonable, assessments were in accordance with DEQ’s penalty matrix, and properly recorded. DEQ had adequate controls to ensure that fines and penalties were properly assessed, calculated, recorded, and in compliance with state laws.

Fleet Management

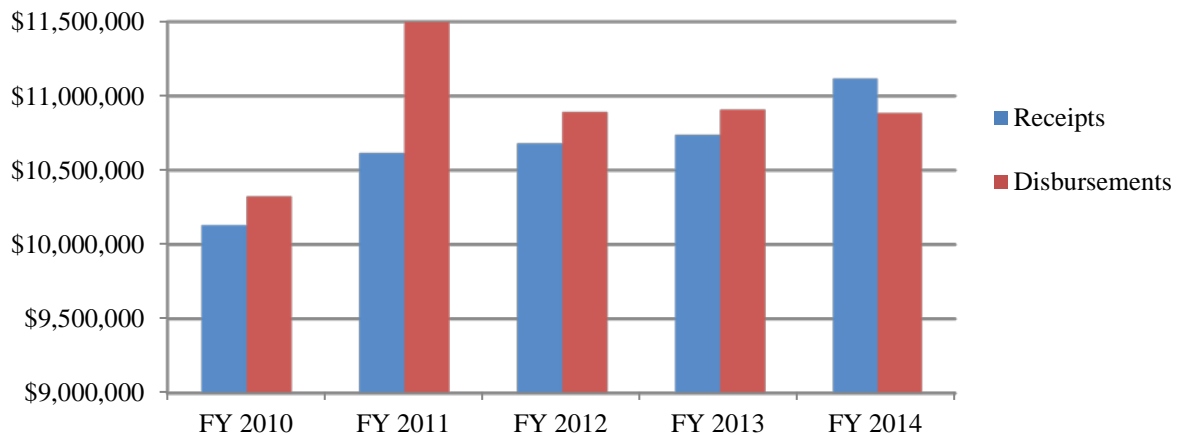
DEQ maintains a fleet of approximately 200 state-owned vehicles. DEQ is responsible for recording vehicle information and maintaining its fleet in accordance with state rules and regulations. DEQ maintained adequate records, including the vehicle title, registration, purchase order, and sales invoice; and had adequate controls to ensure that the fleet existed, was properly recorded and safeguarded.

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 over the last five years (see Exhibit 1). Fees collected for waste tires exceeded program disbursements in fiscal year 2014; however, for each of the previous four fiscal years, program disbursements exceeded fees collected for waste tires.

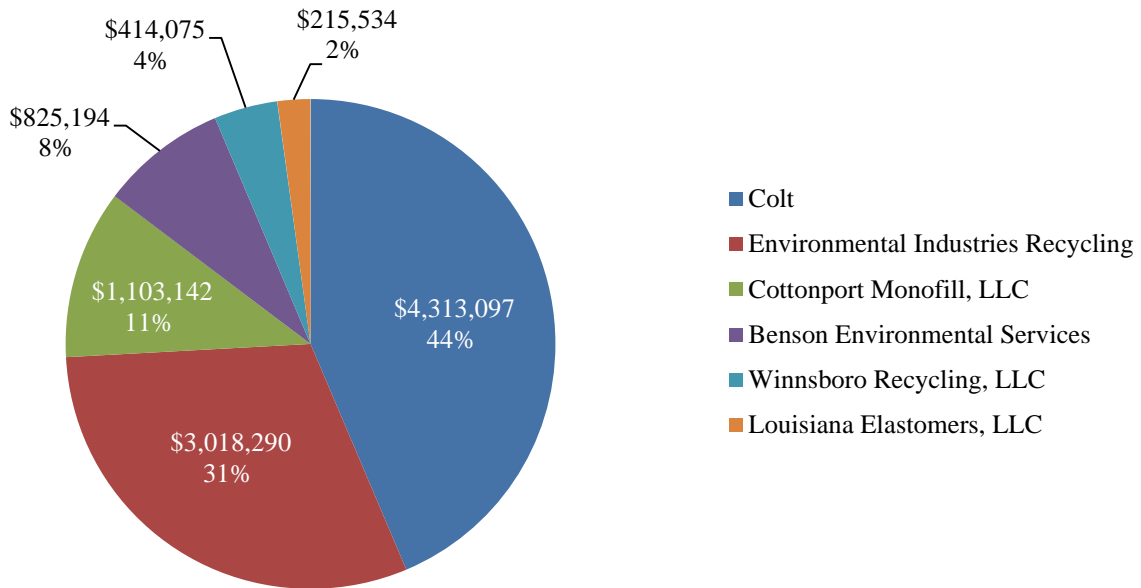
**Exhibit 1
WTMP Receipts and Disbursements by Fiscal Year**



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

We also presented DEQ’s payments to processors in fiscal year 2014 for informational purposes (see Exhibit 2). Of fiscal year 2014 payments totaling approximately \$9.9 million, 75 percent were made to two of the six processors.

**Exhibit 2
Fiscal Year 2014 Processor Payments
(\$9.9 million)**



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

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

Other Report

At the request of DEQ, the Legislative Auditor’s Investigative Audit Services conducted an investigation to address a complaint that a former employee was paid for hours she did not work. The report was issued April 29, 2015, reporting that this former employee of the DEQ Waste Tire Section appeared to have “received \$7,136 for 191 hours that she did not work.” In addition, by pulling tickets when entering the parking garage and not paying for those tickets when exiting, she “deprived the Office of State Buildings of \$5,420 in funds.” The full investigative report is available in the Audit Report Library on the Legislative Auditor’s website at www.lla.la.gov.

APPENDIX A: MANAGEMENT'S RESPONSE

BOBBY JINDAL
GOVERNOR



PEGGY M. HATCH
SECRETARY

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

March 18, 2015

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

Dear Mr. Purpera:

This document represents the response by the Department of Environmental Quality (Department) to the reportable audit finding dated March 5, 2015 from the Louisiana Legislative Auditor entitled, "Inadequate Controls over the Waste Tire Management Program". The Department takes its regulatory and fiduciary responsibility towards the Waste Tire Management Program (WTMP) very seriously and appreciates the opportunity to respond to the findings of the audit report.

The Department concurs in part to this finding. At the time of the audit, the Department had not yet implemented its newly developed analytical monitoring procedure and had not yet investigated analytical variances that could be indicative of potential programmatic abuse. However, the Department has now implemented and is currently utilizing the monitoring procedures that have been developed to ensure that waste tire data used to calculate subsidized payments to the waste tire processors is reasonable.

It should be noted that during the course of developing the analytical procedures, WTMP staff determined that another method was necessary and better suited to address the findings from the prior engagement. The current analytical method utilizes portions of the previous method, but includes different rationale that DEQ determines to be more effective and appropriate to ensure that waste tire data used to subsidize payments to waste tire processors are reasonable.

Of further note, the Department has initiated investigating analytical variances that could be indicative of potential programmatic abuse. Specifically, correspondence was sent requesting an explanation of any unreasonable variance(s) from the last quarter of calendar year 2014. At the conclusion of the investigation, if necessary, the WTMP will take any measures required to resolve the matter.

Additionally, the implementation of the aforementioned analytical monitoring procedure help address many of the Department's internal audit recommendations. The WTMP will continue to work with the recommendations of the internal auditors to address any concerns that will benefit the waste tire program.

Sincerely,

A handwritten signature in blue ink that reads "Vince Sagnibene".

Vince Sagnibene
Undersecretary

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Department of Environmental Quality (DEQ) for the period from July 1, 2013, through April 13, 2015. 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 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, we performed procedures on selected controls and transactions relating to LaCarte purchasing cards, travel expenses, Fueltrac cards, permits, fines and penalties, and the DEQ fleet.
- 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.

We did not audit or review DEQ's Annual Fiscal Reports and, accordingly, we do not express opinions on those reports. DEQ accounts are an integral part of the state of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.