



**OFFICE OF THE LEGISLATIVE AUDITOR**  
STATE OF MINNESOTA

Financial Audit

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# **Minnesota Pollution Control Agency**

## **July 1, 1997, through June 30, 2000**



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## Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately fifty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year and one best practices review.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of Representatives and Senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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**OFFICE OF THE LEGISLATIVE AUDITOR**  
**State of Minnesota • James Nobles, Legislative Auditor**

Senator Ann H. Rest, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Karen A. Studders, Commissioner  
Minnesota Pollution Control Agency

We have conducted a financial related audit of the Minnesota Pollution Control Agency for the period July 1, 1997, through June 30, 2000. Our audit scope included fee and restitution revenues, payroll expenditures, contractual services, travel, claims, and other operating expenditures.

We conducted our audit in accordance with *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the Minnesota Pollution Control Agency complied with the provisions of laws, regulations, contracts, and grants significant to the audit. The management of the Minnesota Pollution Control Agency is responsible for establishing and maintaining the internal control structure and for compliance with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of the Minnesota Pollution Control Agency. This restriction is not intended to limit the distribution of this report, which was released as a public document on June 22, 2001.

/s/ James R. Nobles

James R. Nobles  
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA  
Deputy Legislative Auditor

End of Fieldwork: February 22, 2001

Report Signed On: June 18, 2001

# Minnesota Pollution Control Agency

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### Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Tom Donahue, CPA	Audit Manager
Pat Ryan	Auditor-In-Charge
Allan Sasse	Senior Auditor
Marisa Zenk	Auditor

### Exit Conference

We discussed the results of the audit with the following representatives of the Minnesota Pollution Control Agency at an exit conference held on June 12, 2001:

Karen Studders	Commissioner
Lisa Thorvig	Deputy Commissioner
Cathy Moeger	Acting Chief Financial Officer
Roger Volk	Accounting Supervisor
Kathy Sather	Supervisor, Budgeting and Evaluation Unit

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## Report Summary

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### Key Findings and Conclusions:

In general, the Minnesota Pollution Control Agency (MPCA) designed and implemented internal controls that provided reasonable assurance that it properly collected and recorded the appropriate fee and restitution revenues in the accounting system. In addition, except for the miscoding of professional and technical services expenditures in 1998, the agency designed and implemented internal controls that provided reasonable assurance that operating expenditures were properly authorized, adequately supported, and accurately recorded on the state's accounting system. However, we noted the following internal control or compliance areas where the MPCA could improve its overall fee receipt and depositing procedures:

- Certain receipts were not adequately safeguarded and promptly deposited. The MPCA should log in and restrictively endorse checks when they are received. In addition, the agency should develop procedures to ensure that receipts in excess of \$250 are deposited daily by the Fiscal Services Division in accordance with Minn. Stat. Section 16A.275. (Finding 1, page 5)
- Duties relating to processing of restitution fees were not adequately segregated. The MPCA should develop procedures to ensure there is an independent reconciliation between the bank deposit and the amount posted to the accounts receivable records. (Finding 2, page 6)
- The hazardous waste fee billing database was not reconciled to deposits in the state's accounting system. The MPCA should reconcile receipts posted to the Hazardous Waste billing database to deposits posted into the state's accounting system. (Finding 3, page 6)

**Background:** The mission of the Minnesota Pollution Control Agency is to help Minnesotans protect their environment. The agency assesses the state's environmental status, provides regulatory approvals, acts on complaint and enforcement resolutions, and implements strategies that will protect and enhance public health and the state's environment. Our audit scope included fee and restitution revenues, payroll expenditures, contractual services, travel, claims, and other operating expenditures.

# Minnesota Pollution Control Agency

## Chapter 1. Introduction

The Legislature created the Minnesota Pollution Control Agency (MPCA) and its Citizen's Board in 1967 to protect Minnesota's environment through monitoring environmental quality and enforcing environmental regulations. The agency assesses the state's environmental status, provides regulatory approvals, acts on complaint and enforcement resolutions, and implements strategies that will protect and enhance public health and the state's environment.

The MPCA's Citizen's Board consists of nine members: the MPCA commissioner, (who acts as the board chairperson) and eight public members who are appointed by the Governor with Senate confirmation to four-year staggered terms. The Governor appointed Karen A. Studders as the MPCA commissioner on February 25, 1999. The agency's main offices are located in St. Paul, with nine regional offices located across the state.

Table 1-1 summarizes the MPCA's financial activity during fiscal years 1998 through 2000.

**Table 1-1**  
**Sources and Uses of Funds**  
**Fiscal Years 1998 through 2000**

	1998	1999	2000
<b>Sources:</b>			
Appropriations <sup>(1)</sup>	\$ 61,975,399	\$ 49,958,674	\$ 65,824,482
Less: Cancellations	(2,214)	(1,269,892)	(5,131,597)
Revenues <sup>(2)</sup>	20,532,045	22,019,676	24,460,287
Balances Forwarded In	13,795,820	20,557,086	14,215,733
Transfers In	11,030,018	13,783,243	13,350,833
<b>Total Sources</b>	<b><u>\$107,331,068</u></b>	<b><u>\$105,048,787</u></b>	<b><u>\$112,719,738</u></b>
<b>Uses:</b>			
Payroll	\$ 40,343,870	\$ 42,414,864	\$ 45,653,010
Equipment	1,471,883	3,710,058	1,196,413
Supplies	1,579,009	2,743,021	1,166,331
Contractual Services <sup>(3)</sup>	12,442,493	13,095,889	9,755,390
Other Operating Costs <sup>(3)</sup>	9,788,922	10,071,813	7,871,714
Grants	4,896,892	3,575,741	3,768,758
Travel	1,149,396	1,159,739	1,222,482
Other Expenditures	12,520,347	10,147,819	16,743,517
<b>Total Expenditures</b>	<b>\$ 84,192,812</b>	<b>\$ 86,918,944</b>	<b>\$ 87,377,615</b>
Transfers Out	2,581,170	3,914,110	9,962,254
Balance Forwarded Out	20,557,086	14,215,733	15,379,869
<b>Total Uses</b>	<b><u>\$107,331,068</u></b>	<b><u>\$105,048,787</u></b>	<b><u>\$112,719,738</u></b>

Note 1: 1997 appropriation laws decreased fiscal year 1999 appropriations by approximately \$12 million, primarily from the Environmental Fund, the Solid Waste Fund, and the General Fund.

Note 2: Dedicated revenues for use by MPCA. In addition, the agency also collects non-dedicated revenue as shown in Table 2-1.

Note 3: Fiscal year 1998 amount adjusted by auditor to reflect correction of a miscoding of expenditures. Approximately \$7.2 million miscoded to contractual services should have been coded to other operating costs.

Source: Minnesota Accounting and Procurement System.

## **Minnesota Pollution Control Agency**

The MPCA is funded mainly through state appropriations and federal grants. During the audit period, the agency also received transfers-in from the Department of Public Safety for emission fees collected during vehicle registrations and the Department of Commerce to reimburse the MPCA for costs related to conducting investigations into petroleum contamination. The MPCA has projected a budget shortfall for the 2002-2003 biennium, citing increased personnel costs, reduced federal revenues, and declining fees dedicated to programs.

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## Chapter 2. Revenues

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### *Chapter Conclusions*

*The Minnesota Pollution Control Agency designed and implemented internal controls that provided reasonable assurance that it properly collected and recorded the appropriate fee and restitution revenues in the accounting system. However, receipts were not always adequately safeguarded or deposited promptly. In addition, restitution revenue processing was not adequately segregated, and the hazardous waste fee billing database was not reconciled to the accounting system.*

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The MPCA collects revenues from a variety of sources. However, most of the receipts the agency collects through fees or fines are non-dedicated and not available to fund MPCA activities. Various sections within the agency are responsible for processing permit applications and calculating fee amounts based on formulas set forth in statute and Minnesota Rules. In addition, the agency collected reimbursements from responsible parties for pollution clean-up oversight work conducted by MPCA employees.

Table 2-1 summarizes the revenue activity reviewed for the three fiscal years ended June 30, 2000.

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**Table 2-1**  
**Selected Revenues by Source**  
**For the Three Fiscal Years Ended June 30, 2000**

	<u>1998</u>	<u>1999</u>	<u>2000</u>
<b>Non-Dedicated Revenues</b>			
Air Quality Fees	\$ 8,281,322	\$ 8,743,975	\$ 8,745,525
Water Quality Fees	2,804,594	2,733,861	2,815,995
Hazardous Waste Fees	2,028,731	1,482,791	2,640,424
Restitutions	125,088	98,017	536,506
Total	<u>\$13,239,735</u>	<u>\$13,058,644</u>	<u>\$14,738,450</u>
<b>Dedicated Revenues</b>			
Restitutions	<u>3,340,580</u>	<u>1,977,810</u>	<u>2,833,017</u>
Total	<u>\$16,580,315</u>	<u>\$15,036,454</u>	<u>\$17,571,467</u>

Source: Minnesota Accounting and Procurement System.

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## Objectives and Methodology

Our audit of these MPCA fees and restitution revenues focused on the following questions:



## Minnesota Pollution Control Agency

- Did MPCA design and implement internal controls to provide reasonable assurance that it properly collected, safeguarded, deposited, and recorded fees and restitution revenues in the accounting records?
- Did MPCA comply with applicable finance-related legal provisions related to fee and restitution revenues?

To answer these questions, we interviewed agency staff to gain an understanding of the process for billing, collecting, depositing, and recording receipts. Our audit methodology included inquiries, analytical procedures, and testing of certain revenues processed by the MPCA between the period of July 1, 1997, and June 30, 2000. We also determined if the MPCA promptly deposited and safeguarded these receipts and recorded the amounts in the proper accounts on the state's accounting system.

### Conclusions

The Minnesota Pollution Control Agency designed and implemented internal controls that provided reasonable assurance that it properly collected and recorded the appropriate fee and restitution revenues in the accounting system. However, as explained in Finding 1, receipts were not always adequately safeguarded or deposited promptly. In addition, restitution revenue processing was not adequately segregated, as discussed in Finding 2, and the hazardous waste fee billing database was not reconciled to the accounting system, as explained in Finding 3.

#### **1. Certain receipts were not adequately safeguarded and promptly deposited.**

The agency collects receipts from a variety of sources. The checks and related correspondence are initially received in the agency's Fiscal Services Division. The checks are segregated by receipt type and sent to the applicable section along with related correspondence for processing. The checks are not logged in or restrictively endorsed before being sent out to the processing sections. After processing, the checks are returned to the Fiscal Services Division with a deposit slip specifying the accounts the checks should be recorded in.

Checks coming into the agency should be immediately accounted for and safeguarded. Checks logged in and restrictively endorsed decrease the risk of loss or theft. The risk increases when checks are transferred out of the Fiscal Services Division to other sections for processing. The agency should make copies of the checks and forward the copies to the various sections for processing, if necessary.

In addition, because of the delay that occurs in the processing sections, the receipts are not always promptly deposited. Minn. Stat. Section 16A.275 requires daily deposit of receipts in excess of \$250. For example, our testing of water quality receipts showed there was an average delay of over ten days from receipt to deposit. We also found delays in the processing of restitutions and hazardous waste fees.

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## *Recommendations*

- *The MPCA should log in and restrictively endorse checks when they are received. The agency should make copies of the checks and forward the copies to the various sections for processing, if necessary.*
- *The MPCA should develop procedures to ensure that receipts in excess of \$250 are deposited daily by the Fiscal Services Division in accordance with Minn. Stat. Section 16A.275.*

## **2. Duties relating to processing of restitution fees were not adequately segregated.**

The MPCA collects restitution payments from individuals and businesses for the reimbursement of staff time and other expenses incurred in providing technical assistance in pollution clean-up oversight activities. We found that duties were not adequately separated over the processing of Super Fund, Voluntary Investigation Cleanup Program, and Petro Fund restitution revenues. The same individuals who collected restitution payments were also responsible for recording the billing amounts and posting payments to the account receivable records. In addition, one of these individuals also posted the revenues to the state's accounting system and prepared the bank deposit. Because these individuals had custody of the receipts and were responsible for overseeing the related accounting records, any errors or irregularities may not be detected. An employee independent of the revenue collection process should reconcile the amounts posted to the accounts receivable records and the related bank deposit.

## *Recommendation*

- *The MPCA should develop procedures to ensure there is an independent reconciliation between the bank deposit and the amount posted to the accounts receivable records.*

## **3. The hazardous waste fee billing database was not reconciled to deposits posted to the state's accounting system.**

The MPCA is responsible for licensing businesses, organizations, and governmental units that generate hazardous waste. These entities are required to report the amount of hazardous waste they have generated to the MPCA on an annual basis. The amount produced is used to calculate the license fee. Each license is valid for one year. Data from the waste generation reports are input into a database that calculates the license fee. The database generates invoices, which are mailed to the licensee.

Minn. Stat. Section 155B.22 specifies that the Department of Revenue is responsible for collecting and depositing hazardous waste fees. The Department of Revenue retains a portion of the fees to cover the costs of administering and collecting the fees. On a periodic basis, the Department of Revenue sends the MPCA an electronic data file containing the payments they

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have received. This file is uploaded into the MPCA billing database and the payments are posted against the billing invoices. The amounts collected by the Department of Revenue and posted to the billing database are not reconciled to the related deposits posted to the state's accounting system. This reconciliation would help ensure that payments posted to the billing database were properly collected and deposited to the correct accounts.

### *Recommendation*

- *The MPCA should reconcile receipts posted to the hazardous waste billing database to deposits posted in the state's accounting system.*

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## Chapter 3. Operating Expenditures

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### *Chapter Conclusions*

*Except for the miscoding of professional and technical services expenditures as described in Table 1-1, the Minnesota Pollution Control Agency designed and implemented internal controls that provided reasonable assurance that operating expenditures were properly authorized, adequately supported, and accurately recorded on the state's accounting system.*

*In addition, for the items tested, the Minnesota Pollution Control Agency complied with applicable finance-related legal provisions and bargaining agreements. However, the agency did not always follow established purchasing guidelines.*

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During the audit period, total operating expenditures of the MPCA were approximately \$258 million and included payroll, contractual services, supplies and equipment, travel, and other operating costs. We reviewed selected operating expenditures of approximately \$206.8 million, as shown in Table 3-1.

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**Table 3-1**  
**Selected Operating Expenditures**  
**For the Three Fiscal Years Ending June 30, 2000**

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Payroll	\$40,343,870	\$42,414,864	\$45,653,010
Contractual Services <sup>(1)</sup>	12,442,493	13,095,889	9,755,390
Supplies	1,579,009	2,743,021	1,166,331
Equipment	1,471,883	3,710,058	1,196,413
Travel	1,149,396	1,159,739	1,222,482
Other Operating Costs <sup>(1)</sup>	<u>9,788,922</u>	<u>10,071,813</u>	<u>7,871,714</u>
Total	<u>\$66,775,573</u>	<u>\$73,195,384</u>	<u>\$66,865,340</u>

Note 1: Fiscal year 1998 amount adjusted by auditor to reflect correction of a miscoding of expenditures. Approximately \$7.2 million miscoded to contractual services should have been coded to other operating costs.

Source: Minnesota Accounting and Procurement System (MAPS).

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### **Payroll**

Employee payroll is the largest operating expenditure for the agency. During the audit period, payroll expenditures were approximately \$128.4 million or approximately 50 percent of total operating expenditures. The agency had about 800 full-time positions in fiscal year 2000. The following bargaining units represented these employees:

## **Minnesota Pollution Control Agency**

- American Federation of State, County, and Municipal Employees (AFSCME);
- Minnesota Association of Professional Employees (MAPE);
- Middle Management Association (MMA);
- Managerial Plan; and
- Commissioner's Plan.

### **Professional and Technical Services**

During the audit period, the MPCA incurred approximately \$35.3 million in professional and technical services. The agency utilizes professional and technical service contracts to secure architectural, engineering, environmental, and legal services, among others. The two main programs in which the agency utilized professional and technical services contracts during the audit period were the Vehicle Emissions Program and the Petroleum Tank Release Investigation and Cleanup for Underground and Aboveground Storage Tanks Program. In fiscal year 1998, the agency miscoded approximately \$7.2 million to professional and technical services that should have been coded to claims paid to claimants within the other operating cost category. The auditor has adjusted Table 1-1 and Table 3-1 to reflect the correct classification.

### **Supplies, Equipment, and Travel**

The agency incurred supply, equipment, and travel costs in order to carry out its functions. Equipment purchased by the agency was entered into the State of Minnesota's Fixed Asset Inventory System. The agency conducted periodic physical counts of the equipment inventory. Travel expenses included reimbursements paid to agency employees and direct payments to outside vendors.

### **Objectives and Methodology**

Our audit of MPCA operating expenditures focused on the following questions:

- Did the agency design and implement internal controls to provide reasonable assurance that operating expenditures were properly authorized, adequately supported, and accurately recorded on the state's accounting system?
- Did the agency pay employee salaries and reimburse employee travel expenses in accordance with applicable bargaining agreements and finance-related legal provisions?
- Did the agency comply with state purchasing guidelines over its purchases of goods and services?

To answer these questions, we interviewed staff to gain an understanding of policies and procedures related to payroll and purchasing goods and services. We performed analytical procedures of payroll transactions and reviewed personnel records and bargaining unit agreements. We reviewed documentation supporting expenditures for travel and employee travel reimbursements, supplies, equipment, contractual services, and other operating costs for compliance with state purchasing guidelines and finance-related legal provisions.

# Minnesota Pollution Control Agency

## Conclusions

Except for the miscoding of professional and technical services described in Table 1-1, the Minnesota Pollution Control Agency designed and implemented internal controls that provided reasonable assurance that operating expenditures were properly authorized, adequately supported, and accurately recorded on the state's accounting system.

In addition, for the items tested, the Minnesota Pollution Control Agency complied with applicable finance-related legal provisions and bargaining unit agreements. However, the agency did not always follow established purchasing guidelines, as discussed in Finding 4.

### **4. The MPCA did not always follow established purchasing guidelines.**

Our review of the purchasing process found the agency was not always in compliance with established purchasing guidelines. We selected a sample of agency expenditures to determine compliance with applicable guidelines. We found that for some purchases, an invoice was not obtained before payments were processed. Department of Finance Policies and Procedures provide that agency management must review and approve invoices before payments are processed. This is done to ensure that payments are valid and that the goods or services were provided, to avoid duplicate payments, and to ensure payments are recorded in the proper funds and accounts. We found that 7 of 50 purchases tested were not approved prior to the payment being processed.

#### *Recommendation*

- *The MPCA should obtain and review invoices for all purchases prior to payment.*

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## Status of Prior Audit Issues As of February 22, 2001

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August 30, 1996, Legislative Audit Report 96-34 covered the three fiscal years ending June 30, 1995. The audit scope included appropriations, federal grants, fee receipts, payroll, contractual services, grants, and other administrative expenditures. The report had one finding relating to inaccurate reimbursement of employee travel expenses. This issue was resolved.

### State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.



# Minnesota Pollution Control Agency

*Office of the Commissioner*

June 18, 2001

James R. Nobles, Legislative Auditor  
Office of the Legislative Auditor  
Room 140 Centennial Building  
658 Cedar Street  
St. Paul, MN 55155-1603

Dear Mr. Nobles:

Thank you for the opportunity to respond to the findings and recommendations included in your financial related audit report of the Minnesota Pollution Control Agency for the period July 1, 1997, through June 30, 2000. We have found the information in your report to be very informative and appreciate your findings, which support that internal controls designed and implemented by the Agency are safeguarding State resources. We also appreciate the recommendations to refine our systems to provide greater assurance of efficient resource management. This letter will respond in the same order as the recommendations are listed in your report and include a specific response for each recommendation.

The first recommendation can be found at the end of chapter two-Revenues. The recommendation is to log checks and restrictively endorse when they are received and ensure that receipts in excess of \$250 are deposited daily. We will immediately begin to restrictively endorse checks before they are forwarded to division personnel for legal clarification or receivable updates before deposit. The agency receives approximately five to ten checks each day that require division review before deposit. There is a specific group of ten individuals to whom these checks could be routed for specific review and processing. Photocopying checks received by the Agency and routed for division processing presents a resource problem that we do not feel provides value added compared to the cost. We will seek a limited exemption under Minn. Stat. 16A.275 requiring daily deposits of checks for workload efficiency.

The second recommendation is also from chapter two and recommends an independent reconciliation between bank deposits and accounts receivable postings for several clean-up activities. Recent staff reductions caused by budget reductions across the agency and the resulting adjustments in job duties have caused this to become an issue and we agree with the recommendation. The Accounting Supervisor will review and approve the reconciliation of the deposit and posting records.



The third recommendation also comes in chapter two with the recommendation to reconcile the hazardous waste fee billing database to deposits entered and transferred from the Department of Revenue. This responsibility will be assigned to the Accounting Technician that currently does the reconciliation for our air and water fees.

The final recommendation can be found in chapter three and deals with review and approval of purchase prior to payment. Steps have already been taken to remedy this situation. Accounts payable staff has been alerted to review documents for appropriate approvals. Also, the Agency purchasing officer, as part of the review for purchasing compliance, has begun to review for appropriate payment approvals.

Again, thank you for the opportunity to provide this response to your report.

Sincerely,

*/s/ Lisa J. Thorvig for*

Karen A. Studders  
Commissioner

KAS:rkv