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STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

Minnesota Pollution Control Agency

Internal Control and Compliance Audit

July 23, 2009

Report 09-24

FINANCIAL AUDIT DIVISION

Centennial Building – Suite 140

658 Cedar Street – Saint Paul, MN 55155

Telephone: 651-296-4708 • Fax: 651-296-4712

E-mail: auditor@state.mn.us • Web site: <http://www.auditor.leg.state.mn.us>

Through Minnesota Relay: 1-800-627-3529 or 7-1-1

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

July 23, 2009

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Paul Eger, Commissioner
Minnesota Pollution Control Agency

This report presents the results of our internal control and compliance audit over selected financial activity at the Minnesota Pollution Control Agency for the period July 1, 2006, through February 28, 2009. During the audit, we reviewed the Pollution Control Agency's air emission, hazardous waste, and water quality fees; payroll expenditures; county feedlot, clean water partnership, metro landfill, recycling, and waste reduction grant expenditures; equipment/fixed assets; landfill cleanup construction, operations and maintenance, and Superfund cleanup expenditures; and agency indirect costs that are reallocated to multiple funding sources.

We discussed the results of the audit with the Pollution Control Agency's staff on July 7, 2009. The audit was conducted by James Riebe, CPA (Audit Manager) and Laura Wilson, CPA, CISA (Auditor-in-Charge), assisted by auditors Tracy Gebhard, CPA, Kayla Borneman, CPA, Sara Becker, and Bridgette Leonard.

This report is intended for the information and use of the Legislative Audit Commission and the management of the Pollution Control Agency. This restriction is not intended to limit the distribution of this report, which was released as a public document on July 23, 2009.

We received the full cooperation of the Pollution Control Agency's staff while performing this audit.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Report Summary

Conclusions

Except for receipts, the Minnesota Pollution Control Agency generally had adequate internal controls to ensure that it safeguarded its financial assets, complied with finance-related legal requirements, and produced reliable financial data. The agency's internal controls over certain receipts were not adequate due to several weaknesses.

The agency did not fully resolve four of ten prior audit findings.

For the items tested, except for the issues noted in this report, the agency complied with finance-related legal requirements over its financial activities.

Key Findings

- The Pollution Control Agency did not adequately monitor the effectiveness of its internal controls, as required by state policy. ([Finding 1, page 7](#))
- The Pollution Control Agency did not adequately safeguard certain receipts or manage related accounts receivable. ([Finding 2, page 7](#) and [Finding 4, page 9](#))
- Prior Finding Not Resolved: The Pollution Control Agency did not consistently reconcile receipts on its billing system to the state's accounting system. ([Finding 3, page 9](#))
- Prior Finding Not Resolved: The Pollution Control Agency did not verify the accuracy of its payroll transactions. ([Finding 6, page 11](#))

Audit Objectives and Scope

Objectives

- Internal controls and compliance
- Prior agency findings

Period Audited

July 1, 2006, through February 28, 2009

Audit Scope

- Air emission, hazardous waste, and water quality receipts
 - Payroll expenditures
 - Equipment/fixed assets
 - Selected grant expenditures, including grants for county feedlot, clean water partnership, metro landfill, and recycling and waste reduction
 - Allocation of operating costs to agency programs
 - Landfill cleanup construction, operations and maintenance, and Superfund cleanup expenditures
-

Background

The Minnesota Pollution Control Agency operates under *Minnesota Statutes* 2008, Chapter 116. It establishes rules, issues permits, conducts inspections, and engages in other regulatory and educational activities to help protect human health and the environment. The agency manages accounts in the environmental, remediation, federal, miscellaneous special revenue, general, and other funds. During fiscal year 2008, the agency received \$141 million in appropriations, collected receipts totaling \$79 million, and disbursed \$161 million for its operations and grants.

Minnesota Pollution Control Agency

Agency Overview

The Minnesota Pollution Control Agency operates under *Minnesota Statutes* 2008, Chapter 116. It establishes rules, issues permits, conducts inspections, and engages in other regulatory and educational activities to help protect human health and the environment. Effective July 1, 2005, the Legislature combined the Office of Environmental Assistance, whose mission was to protect the environment through waste prevention and resource conservation, into the Pollution Control Agency.

The agency accounts for its financial operations in numerous funds including the General Fund, Environmental Fund,¹ Remediation Fund,² Federal Fund, and various special revenue funds. The agency received more than \$110 million in legislative appropriations each year of our audit scope.³ Table 1 summarizes the agency's expenditures for fiscal years 2007 and 2008.

¹ The Environmental Fund is a special revenue fund that accounts for activities that monitor and control environmental problems funded from taxes and fees levied on activities and industries contributing to environmental problems.

² The Remediation Fund is a special revenue fund that accounts for activities that respond to and correct releases of hazardous substances, pollutants, chemicals, and petroleum, as well as environmental actions at qualified landfill facilities.

³ In fiscal year 2007, the agency received \$112 million in appropriations; in fiscal year 2008, it received \$141 million; and in fiscal year 2009, it received \$111 million. As part of the fiscal year 2008 appropriation, the agency received \$12 million for statewide assessments of surface water quality and trends and \$18 million to develop total maximum daily load reports and implement plans for waters listed on the United States Environmental Protection Agency approved impaired waters list. Both of these appropriations were one-time appropriations from the General Fund. See *Minnesota Laws* 2007, Chapter 57, Article 1, Sec. 3.

Table 1
Expenditures
Budget Fiscal Years 2007 through 2008

<u>Expenditure Category</u> ¹	<u>2007</u>	<u>2008</u>
Payroll	\$61,718,267	\$69,761,604
State Grants ²	27,103,608	28,698,117
Agency Indirect Costs	12,307,939	12,958,383
Other Operating Costs ³	13,972,365	13,082,972
Equipment/Fixed Assets	4,376,436	1,820,554
Other Expenditures ⁴	43,162,475	34,949,576
Total	<u>\$162,641,090</u>	<u>\$161,271,206</u>

¹In addition to the amounts shown above, we reviewed portions of the agency's financial activity in fiscal year 2009 through February 28, 2009. As of February 28, 2009, the agency had disbursed \$94 million in fiscal year 2009.

²We audited the county feedlot, clean water partnership, metro landfill and the Select Committee on Recycling and the Environment (SCORE) grant expenditures totaling \$18.6 million and \$19.3 million in fiscal years 2007 and 2008, respectively.

³We audited the landfill cleanup construction, operations and maintenance, and Superfund cleanup costs totaling \$11 million and \$10 million in fiscal years 2007 and 2008, respectively.

⁴The other expenditures include professional technical services, space rental, loans and advances, supplies, travel, and miscellaneous expenditures.

Source: Minnesota Accounting and Procurement System as of February 28, 2009.

In addition to legislative appropriations, the agency received federal grants and collected various fees. Table 2 highlights agency revenues by category.

Table 2
Revenues
Fiscal Years 2007 through 2008

<u>Revenue Category</u> ¹	<u>2007</u>	<u>2008</u>
Federal Grants	\$23,945,835	\$23,249,006
Air Emission Fees	10,705,111	10,974,446
Hazardous Waste Fees	2,136,081	6,081,383
Water Quality Fees	4,440,117	4,347,593
Other Receipts	27,405,978	34,838,675
Total	<u>\$68,633,122</u>	<u>\$79,491,103</u>

¹In addition to the amounts shown above, we reviewed portions of the agency's financial activity in fiscal year 2009 through February 28, 2009. As of February 28, 2009, the agency had collected \$41 million in year 2009.

Source: Minnesota Accounting and Procurement System as of February 28, 2009.

Objectives, Scope, and Methodology

Our selected scope audit included the Pollution Control Agency's air emission, hazardous waste and water quality fees, payroll expenditures, county feedlot, clean water partnership, metro landfill, and SCORE grant expenditures,⁴ equipment/fixed assets, landfill cleanup construction, operations and maintenance, Superfund cleanup expenditures, and agency operating costs that are reallocated to multiple funding sources. Our audit of these areas focused on the following audit objectives for the period July 1, 2006, to February 28, 2009:

- Were the agency's internal controls adequate to ensure that it safeguarded its financial assets, produced reliable financial data, and complied with finance-related legal requirements?
- For the items tested, did the agency comply with finance-related legal requirements, including state laws, regulations, contracts, and applicable policies and procedures?
- Did the agency resolve prior audit findings, including the prior findings from the former Office of Environmental Assistance?⁵

To meet the audit objectives, we gained an understanding of the Pollution Control Agency's financial policies and procedures. We considered the risk of errors in the accounting records and noncompliance with relevant legal requirements. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined a sample of evidence supporting the agency's internal controls and compliance with laws, regulations, policies, and contracts.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

We used the guidance contained in Internal Control-Integrated Framework, published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate agency controls.⁶ We also used as

⁴ In 1989, the Minnesota Legislature adopted comprehensive waste reduction and recycling legislation based on the recommendations of the Select Committee on Recycling and the Environment. This set of laws, commonly referred to as SCORE, is a funding source to develop effective waste reduction, recycling, and solid waste management programs.

⁵ Office of the Legislative Auditor's Financial Audit Division Report 05-35, *Minnesota Pollution Control Agency*, issued June 16, 2005, and 05-27, *Office of Environmental Assistance*, issued May 12, 2005.

⁶ The Treadway Commission and its Committee of Sponsoring Organizations were established in the mid-1980's by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity.

evaluation criteria the state policies and procedures established by the departments of Management and Budget and Administration as well as the agency's internal policies and procedures.⁷

Conclusions

Except for receipts, the Pollution Control Agency generally had adequate internal controls to ensure that it safeguarded its financial assets, complied with finance-related legal requirements, and produced reliable financial data. The agency's internal controls over certain receipts were not adequate due to several control weaknesses. It did not adequately safeguard receipts, reconcile its billing system to the state's accounting system, manage its accounts receivables, and charge correct late fees. In addition, the agency did not adequately monitor the effectiveness of its internal controls or verify the accuracy of the payroll transactions.

For the items tested, except for the items noted in this report, the agency complied with finance-related legal requirements over its financial activities.

The agency did not fully resolve four of ten prior findings related to the receipts and payroll areas; we did not follow up on one of the ten findings.⁸

The following *Findings and Recommendations* further explain the exceptions noted above.

⁷ The Department of Management and Budget consists of the former departments of Finance and Employee Relations.

⁸ We did not follow up on Finding 5, related to untimely billings of pollution prevention fees, from the Office of the Legislative Auditor's Financial Audit Division Report 05-27, *Office of Environmental Assistance*, issued May 12, 2005. We did not include those receipts within the scope of the current audit.

Findings and Recommendations

The Pollution Control Agency did not adequately monitor the effectiveness of its internal controls, as required by state policy.

Finding 1

Findings 2 through 7 identify specific deficiencies in the agency's internal controls procedures; four of these six findings were unresolved issues from our prior audit reports. Although management had developed a corrective action plan to address the prior findings, it did not detect that staff had not consistently applied the controls. The agency had not developed or implemented procedures to monitor the effectiveness of its internal controls over time. An effective monitoring function would have identified and corrected these deficiencies.

As of February 2009, agency controls were generally adequate except for receipts. However, controls may deteriorate over time due to human error or misunderstandings about the control policies or procedures, or controls may need to be updated due to changes in business operations. Therefore, the agency has an increased risk of errors or fraud if it does not adequately monitor its internal control system.

State policy requires that each agency head monitor its internal control system to assess its quality over time.⁹ Follow-up procedures should include mechanisms for monitoring results and reporting significant control deficiencies to individuals responsible for the process or activity involved, including executive management and those individuals in a position to take corrective action.

Recommendation

- *The agency should develop and implement procedures to ensure it monitors the effectiveness of its internal controls on an on-going basis to identify and resolve weaknesses in its internal control system.*

The Pollution Control Agency did not adequately safeguard its receipts in certain areas.

Finding 2

The agency had the following internal control weaknesses related to the physical safeguarding of receipts:

⁹ Department of Management and Budget Policy 0102-01 *Internal Control*.

- The agency routed certain water quality and hazardous waste receipts to multiple agency staff rather than having all receipts collected in the accounting unit. Having multiple staff process receipts and not immediately restrictively endorsing the checks increased the potential for lost or stolen receipts. At least four agency staff received water quality receipts from customers requesting new permits. These water quality receipts during the audit period were about \$2.2 million of the total water quality receipts. Four permit engineers also received permit and facility fees from the hazardous waste facilities. Permit and facility fees during the audit period comprised about \$1.2 million of the total hazardous waste receipts. The program staff reviewed the related correspondence and then forwarded the checks to the accounting unit for processing. The accounting unit then restrictively endorsed the checks and prepared the bank deposit.
- The agency did not periodically change the combination on its safe, even after an employee transferred to a different position and no longer needed access to the safe. By not changing the combination, the risk of theft and lack of accountability over the safeguarding of receipts increased.
- The agency did not sufficiently safeguard its receipts while in transit to the state treasury for deposit.

The Department of Management and Budget's policy requires state agencies to develop internal procedures to ensure all receipts are properly safeguarded and accounted for.¹⁰ The agency had not developed such a policy which likely contributed to the above weaknesses not being identified and addressed.

Recommendation

- *The agency should develop an internal policy on recording and depositing receipts. The policy should require that the accounting unit: (1) collects all receipts and that receipts are not routed to other divisions in the agency, (2) periodically changes the combination to the safe, especially after employee turnover, and (3) safeguards receipts while in transit for deposit.*

¹⁰ Department of Management and Budget Policy 0602-03 *Recording & Depositing Receipts*.

Prior Finding Not Resolved: The Pollution Control Agency did not consistently reconcile receipts on its billing subsystem to the state's accounting system.

Finding 3

The agency did not reconcile the receipts recorded in its billing subsystem to the receipts in the state's accounting system from April 2008 to February 2009. The agency collected over \$4 million, and the Department of Revenue, on behalf of the agency, collected an additional \$40 million of air emission, hazardous waste, and water quality fees during our audit scope. The agency updated the billing subsystem based on information provided by the Department of Revenue for those collections. The agency used its internal billing system to track billings and payments of air quality, hazardous waste, and water quality fees and to monitor outstanding balances. Reconciling the subsystem to the state's accounting system would ensure the integrity of the accounting data in both systems.

Recommendation

- *The agency should perform periodic reconciliations between its billing subsystem and the state's accounting system.*

The Pollution Control Agency did not adequately manage its accounts receivable.

Finding 4

The agency did not pursue collection of its accounts receivable in accordance with statutory requirements. During fiscal year 2009, the agency had over \$819,000 of outstanding accounts receivable for air quality, hazardous waste, and water quality invoices, had not written off uncollectible accounts, and had many accounts with due dates as far back as 2001. Of the \$819,000, \$298,000 was 121 days overdue and \$508,000 was more than a year overdue. Although state statute required state agencies to refer outstanding receivables that were 121 days past due to the Department of Revenue's Collection Division, the agency referred accounts no more often than once a year.¹¹ The agency had not adequately followed up on 14 of the 15 accounts receivable balances we tested, totaling about \$146,000. The agency should have referred eight (\$139,000) of those 15 accounts to the Department of Revenue's Collection Division and written off five others (\$6,000). Finally, after our inquiry, the agency determined that it had not posted a \$240 payment to the billing subsystem to resolve one outstanding account.

The Pollution Control Agency had not developed an accounts receivable plan or procedures for following up on overdue accounts receivable and writing off uncollectible accounts, which likely contributed to the agency not identifying and addressing the above weaknesses. The agency had assigned multiple

¹¹ *Minnesota Statutes* 2008, 16D.04.

program staff and the Department of Revenue responsibility for following up on outstanding accounts receivable; having the collection responsibilities decentralized was inefficient and contributed to accounts not being effectively collected or written off.¹² Department of Management and Budget's policy requires each state agency to establish its own accounts receivable management plan to ensure that it adequately follows up on outstanding accounts receivable.¹³ State policy also requires state agencies to develop internal policies and procedures for determining when accounts are uncollectible and should be written off.¹⁴

The agency also had not adequately segregated incompatible duties for fee waivers. The employee responsible for following up on outstanding accounts made the final determination on what fees would be waived and recorded the waivers in the billing system. This lack of segregation of duties increased the risk of errors or inappropriate waivers. In addition, the agency had not established any policies or procedures over the waiver process.

Recommendations

- *The agency should:*
 - *develop and adhere to an internal policy for managing its outstanding accounts receivable, including following up on outstanding receivables, waiving fees, and writing off uncollectible accounts; and*
 - *consider centralizing its accounts receivable function.*
- *The agency should segregate duties over its fee waiver process.*

Finding 5

Prior Finding Not Resolved: The Pollution Control Agency did not comply with legal requirements when assessing late fees and establishing due dates for certain receipts.

The agency did not consistently assess late fees to customers who made late payments and did not always assess late fees in compliance with legal requirements. Similarly, the agency did not ensure that the Department of Revenue complied with those requirements for the receipts it collected on behalf of the agency. We reported this noncompliance issue in our last audit report.

¹² The agency's program staff followed up on the outstanding fees for the hazardous waste facilities and permits and the new water quality permits. The Department of Revenue followed up on the outstanding fees for air quality permits, the hazardous waste generator licenses, and the water quality permit renewals.

¹³ Department of Management and Budget Policy 0505-01 *Receivable Collection Process and Actions*.

¹⁴ Department of Management and Budget Policy 0507-01 *Writing-off Uncollectible Accounts*.

Air quality, hazardous waste, and water quality receipts each have separate *Minnesota Rules* that specify the requirements for assessing late fees. The late fees range from 10 to 20 percent of the original fee amount. We reviewed 22 invoices where the customer had not paid the fee by the invoice due date. Based on the invoice due date the agency did not assess late fees of about \$2,000 on three of these invoices and incorrectly calculated the late fees for nominal amounts on 12 others.

The agency did not establish the correct due date on customer invoices for hazardous waste generator receipts as specified in state rules.¹⁵ Large and small quantity generators must submit fees within 50 days, and very small quantity generators must submit fees within 35 days. For 13 out of 20 invoices we tested the agency established the due date one to five days early. Receipts from these generators during the three-year audit period were about \$10.9 million.

The agency established incorrect due dates for all industrial storm water and feedlot renewal permits with a combined total of \$1 million in fiscal year 2008 (as of February 2009, the agency had not billed for these permits in fiscal year 2009). The agency incorrectly established the due dates at 45 days instead of 30 days, as required by state rules.¹⁶ In our prior report, the agency had allowed customers to pay the water quality fees within 60 days rather than the required 30 days.

Recommendations

- *The agency should assess correct late fees in compliance with state rules or revise the rules to simplify the administrative requirements associated with assessing late fees.*
- *The agency should establish its invoice due dates in compliance with the state rules for industrial storm water and feedlot permit fees.*

Prior Finding Not Resolved: The Pollution Control Agency did not perform certain key procedures to provide assurance over the accuracy of payroll transactions.

Finding 6

The agency did not adequately review two key reports and did not ensure employees approved their own timesheets. These controls are especially important since payroll is the largest expense category of the agency, totaling almost \$70 million in fiscal year 2008.

¹⁵ *Minnesota Rule* 7046.0031 and 7046.0040.

¹⁶ *Minnesota Rule* 7002.0270.

- The agency did not review the payroll register from May 2008 through February 2009. Before May 2008, an independent person reviewed the report but not for each pay period, as required by state policy. We reported this finding in our last audit report on the agency; at the time of that audit, the agency did not review the payroll register.¹⁷ State policy requires agencies to review the payroll register report each pay period to verify that the agency accurately inputs hours, amounts, lump sum payments, and other adjustments into the state's payroll system.¹⁸ The policy also requires agencies to document the review.
- The agency did not adequately follow up on electronic timesheet exceptions noted on the self service time entry audit report. State policy requires a documented explanation of why employees did not complete their own timesheets or why someone other than the employee's direct supervisor approved the timesheet.¹⁹ Following this policy helps ensure employees received correct compensation. The agency began implementing self service time entry for certain employees in September 2008 and had not fully implemented it for all agency employees as of May 2009. An employee from the accounting unit reviewed the self service time entry audit reports from September 2008 through February 2009. However, that employee did not follow up with the direct supervisors to document the rationale for deviating from the normal electronic timesheet completion and approval process.
- The agency did not always require employees to sign their paper timesheets, as required by state policy.²⁰ Having employees sign their timesheets certifies that they are taking responsibility for the accuracy of the time worked and leave taken. In instances where an employee was not available at the end of the pay period to complete the timesheet, the agency allowed the supervisor to submit a timesheet for the employee. The agency did not require the accounting staff to circle back with the employee and have the employee review and sign the timesheet. By not obtaining the employee's signature, the agency could not ensure the employee's compensation was accurate.

¹⁷ Office of the Legislative Auditor's Financial Audit Division Report 05-35, *Minnesota Pollution Control Agency*, issued June 16, 2005.

¹⁸ Department of Management and Budget policy PAY0028 *Agency Verification of Payroll and Human Resources Transactions*.

¹⁹ Department of Management and Budget policy PAY0017 *Employee Self Service Time Entry*.

²⁰ Department of Management and Budget policy PAY0016 *Biweekly Time Reporting By Employees*.

Recommendations

- *The agency should perform an independent verification of payroll transactions each pay period to help ensure that amounts processed agree with payroll amounts authorized by the employee and management.*
- *The agency should follow up on time reporting exceptions reported on the self service time entry audit report.*
- *The agency should ensure all employees sign their own timesheets to certify hours worked and leave taken.*

Prior Finding Partially Resolved: The Pollution Control Agency did not adequately monitor the access it gave its employees to the state's payroll system or its billing subsystem resulting in unnecessary and incompatible access.

Finding 7

The agency did not adequately monitor security access to its accounting systems or limit the access based on an employee's current job duties. We reported this issue, related to access to the payroll system, to the Office of Environmental Assistance in our last audit report.²¹ The agency uses the state's accounting and payroll systems and has its own billing subsystem. The agency had the following weaknesses related to security access to the state's payroll system and the billing subsystem:

- The agency did not adequately review the state's payroll system security reports. Although the payroll security administrator reviewed the security reports, the review was not effective because 5 out of 20 employees had unnecessary access to update and make corrections to the payroll records. According to state policy, the agency's payroll security administrator should review access to the payroll system and ensure the access granted is only for those functions necessary to perform the user's job duties.²² The agency should periodically review security access to ensure the level of access is appropriate based on personnel changes, including changes in employees' job duties.
- The agency did not define the incompatible security clearances in its billing subsystem; did not periodically review the access; gave six employees unnecessary access; and gave another employee incompatible access without establishing mitigating controls for the incompatibility.

²¹ Office of the Legislative Auditor's Financial Audit Division Report 05-27, *Office of Environmental Assistance*, issued May 12, 2005.

²² Department of Management and Budget policy HR045 *SEMA4 Security*.

According to state policy, state agencies should limit access to subsystems to those functions that are essential to the user's job responsibilities and avoid granting access that results in incompatible functions.²³

Recommendation

- *The agency should periodically monitor employee access to its business systems to ensure clearance is limited to current job responsibilities and does not include incompatible functions. In cases where incompatible functions cannot be separated, the agency should implement and maintain mitigating controls.*

²³ Department of Management and Budget policy 1101-07 *Security and Access*.



July 17, 2009

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

Dear Mr. Nobles:

Thank you for the opportunity to review and respond to the Office of Legislative Auditor's (OLA) findings and recommendations resulting from a recent financial and compliance audit of the Minnesota Pollution Control Agency (MPCA). The MPCA takes its fiscal responsibilities seriously. As such, the MPCA appreciates the professional review conducted by OLA staff and the guidance provided by the auditors during the review so that some of the Findings could be resolved during the course of the audit. Timely resolution of these Findings allowed the MPCA to further control risks.

The MPCA has written a response to each audit finding and recommendation.

Finding 1: The Pollution Control Agency did not adequately monitor the effectiveness of its internal controls, as required by state policy.

Recommendation

The agency should develop and implement procedures to ensure it monitors the effectiveness of its internal controls on an on-going basis to identify and resolve weaknesses in its internal control system.

MPCA Response: The MPCA agrees with this Finding. The MPCA will develop and implement procedures for the purpose of identifying weaknesses in internal controls and ensure any system weaknesses are corrected. The MPCA will continuously review its financial policies and program operations to ensure they incorporate sound financial internal controls. Of particular emphasis will be the monitoring aspects of the Agency's internal control system to ensure identification of system weaknesses and proper resolution occurs promptly.

The MPCA is putting in place, effective immediately, quarterly meetings involving the Commissioner, Deputy Commissioner, and Fiscal Management to track progress in resolving the audit findings. Future Commissioners and Fiscal Management staff should understand the Agency's financial operations in a context of its internal control system: financial management policies and procedures, internal controls, and protocols for monitoring effectiveness.

Implementation Date: September 30, 2009

Responsible Manager: Tim Scherkenbach, Deputy Commissioner

Finding 2: The Pollution Control Agency did not adequately safeguard its receipts in certain areas.

Recommendation

The agency should develop an internal policy on recording and depositing receipts. The policy should require that the accounting unit: (1) collects all receipts and that receipts are not routed to other divisions in the agency, (2) periodically changes the combination to the safe, especially after employee turnover, and (3) safeguards receipts while in transit for deposit.

MPCA Response: The MPCA agrees with this Finding and will be doing the following to resolve the issues.

1. The MPCA's Fiscal Section is currently engaged in a re-design process where the issue of receipt processing will be specifically addressed. This redesign process will be completed by December 31, 2009, and will result in staff reassignments related to this and other financial management issues. Part of the re-design process will include preparing workflow charts, written policies and procedures. Even before the section redesign is complete, the MPCA has resolved items 2 and 3 of this recommendation as noted below.
2. The MPCA Accounting Supervisor has changed the combination to the safe and has updated the list of employees authorized to access the safe. The safe combination will be changed when employees leave the agency or when job duties no longer require access to the safe. This list will also be reviewed on a semi-annual basis to ensure only the appropriate employees have access to the safe.
3. The MPCA will implement a change in the delivery of the daily deposit to the Treasury by August 1, 2009. The change will include assigning different staff to deliver the deposit and stagger the times so the delivery routine is not predictable. The MPCA is also investigating using an armored car service to pick up checks in the future.

Implementation Date: December 31, 2009

Responsible Manager: Lyle Mueller, Finance Manager

Finding 3: *Prior Finding Not Resolved:* The Pollution Control Agency did not consistently reconcile receipts on its billing subsystem to the state's accounting system.

Recommendation

The agency should perform periodic reconciliations between its billing subsystem and the state's accounting system.

MPCA Response: The MPCA agrees with this Finding. The MPCA has restarted reconciling the receipts between the billing system and MAPS. The reconciliation will occur monthly and any discrepancies will be resolved in a timely manner.

Implementation Date: Completed March 2009

Responsible Manager: Lyle Mueller, Finance Manager

Finding 4: The Pollution Control Agency did not adequately manage its accounts receivable.

Recommendations

- *The agency should:*
 - *develop and adhere to an internal policy for managing its outstanding accounts receivable, including following up on outstanding receivables, waiving fees, and writing off uncollectible accounts; and*
 - *consider centralizing its accounts receivable function.*
- *The agency should segregate duties over its fee waiver process.*

MPCA Response: MPCA agrees with this Finding and will take the following actions to resolve the issues. The MPCA has initiated a Fee Manager Committee, which will report to the Fiscal Systems Management Team (FSMT). The Committee and the FSMT are lead by the MPCA's Finance Manager Lyle Mueller. The Committee is charged with looking at all fee processes in the Agency and developing a consistent system to accept, reconcile, and manage fee-related decisions. The Fiscal Section, as mentioned in response to Finding 2, is working through a re-design process. The combination of these two efforts will result in changes to address the recommendations in this Finding. Finally, the MPCA is updating the current Accounts Receivable Management Plan, which addresses the policy and procedures governing receivables.

Implementation Date: June 30, 2010

Responsible Manager: Lyle Mueller, Finance Manager

Finding 5: Prior Finding Not Resolved: The Pollution Control Agency did not comply with legal requirements when assessing late fees and establishing due dates for certain receipts.

Recommendations

- *The agency should assess correct late fees in compliance with state rules or revise the rules to simplify the administrative requirements associated with assessing late fees.*
- *The agency should establish its invoice due dates in compliance with the state rules for industrial storm water and feedlot permit fees.*

MPCA Response: The MPCA agrees with this Finding. The MPCA has begun evaluating how its internal systems can be modified to ensure consistent compliance with the fee rules. Additionally, the MPCA has fee rule amendment in process that proposes to make the water and air fee payment date and late fee calculation the same for both fees. This change will allow for consistent administration and programming of the invoice process. Critical to this effort, the MPCA is proposing a language revision to clarify the definition of "payment date." The recommended change will define the payment date as 30 days from the invoice date rather than 30 days after the receipt date (current rule language). Since the MPCA cannot prove when a regulated party actually receives an invoice, it is difficult to program a system to accurately assess a late fee. The new language will allow the MPCA to re-program the computer system to automatically calculate late fees and send late notices.

The MPCA's current investigation has shown some problems with the current fee collection process shared with the Department of Revenue (DOR). The MPCA receives a data file approximately once a month from DOR, which is then reconciled with the MPCA's invoice database. This creates an unintentional delay in the MPCA's sending of late notices as some question remains about timely payment until the data file is received. The MPCA will meet with DOR to discuss changes to this process and ensure a more timely reconciliation of payments received to the receivables database. The MPCA is also investigating the possibility of DOR posting daily receipts directly to the MPCA's invoice database so the system is always up-to-date. Daily posting would enable the Agency to calculate accurate late fees and send delinquent notices on a timely basis.

Implementation Date: December 31, 2009

Responsible Manager: Lyle Mueller, Finance Manager

Finding 6: Prior Finding Not Resolved: The Pollution Control Agency did not perform certain key procedures to provide assurance over the accuracy of payroll transactions.

Recommendations

- *The agency should perform an independent verification of payroll transactions each pay period to help ensure that amounts processed agree with payroll amounts authorized by the employee and management.*

MPCA Response: The MPCA agrees with this Finding and has already acted on the recommendation. The MPCA implemented a process to resolve this Finding from the last audit. However, in the spring of 2008, the MPCA experienced unexpected staff turnover in the Accounting Unit, which resulted in significant work reassignments between remaining staff. The necessary prioritization of unit work activities left the assurance task undone. Accounting operations are now fully staffed and the task was resumed in March 2009. The task is being done by a unit employee who otherwise does not work on payroll activities.

- *The agency should follow up on time reporting exceptions reported on the self service time entry audit report.*

MPCA Response: The MPCA began implementing self-service time entry in mid-2008 and found the auditor's review especially helpful in this area. The MPCA now requires supervisors to enter comments when an employee does not enter and mark as complete their time in the self-service time entry system. In addition, the alternate timesheet approvers must also write an explanation in the comments field. The Agency will provide additional training as necessary to resolve future issues.

- *The agency should ensure all employees sign their own timesheets to certify hours worked and leave taken.*

MPCA Response: The MPCA has one central location for payroll input, except for employees that use self-service time entry. Some regional staff report to a supervisor at another office location. To meet payroll input deadlines, these employees may send their timesheets electronically or by fax to their supervisor, and the supervisor then approves the timesheet. Effective immediately, the MPCA will ensure employees also submit a timesheet with an original signature to their supervisor, the supervisor signs the timesheet, and the timesheet with both original signatures is sent to the MPCA's central payroll.

J. Nobles
July 17, 2009
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Implementation Date: August 1, 2009
Responsible Manager: Lyle Mueller, Finance Manager

Finding 7: Prior Finding Partially Resolved: The Pollution Control Agency did not adequately monitor the access it gave its employees to the state's payroll system or its billing subsystem resulting in unnecessary and incompatible access.

Recommendation

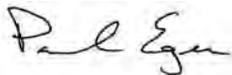
The agency should periodically monitor employee access to its business systems to ensure clearance is limited to current job responsibilities and does not include incompatible functions. In cases where incompatible functions cannot be separated, the agency should implement and maintain mitigating controls.

MPCA Response: The MPCA agrees with this Finding and is currently reviewing all security profiles to ensure that employees only have the clearance they need to perform their job responsibilities and to eliminate incompatible security profiles. Each section will make changes to the security profiles when employees leave the agency or change jobs having different security designations. As an added precaution the security profiles will be reviewed annually to ensure the profiles still reflect the correct clearances.

Implementation Date: August 31, 2009
Responsible Manager: Lyle Mueller, Finance Manager

Thank you again for the opportunity to respond. If you have any questions, please feel free to contact Chief Financial Officer Myrna Halbach at 651-757-2403, Myrna.Halbach@state.mn.us, or Finance Manager Lyle Mueller at 651-757-2591, Lyle.Mueller@state.mn.us.

Sincerely,



Paul Eger
Commissioner