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

**Financial Audit**

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**Office of Environmental Assistance**  
**Three Years Ended June 30, 1999**



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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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All OLA reports are available at our Web Site: <http://www.auditor.leg.state.mn.us>

If you have comments about our work, or you want to suggest an audit, investigation, evaluation, or best practices review, please contact us at 651-296-4708 or by e-mail at [auditor@state.mn.us](mailto:auditor@state.mn.us)



## Report Summary

Financial Audit Report

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### **Office of Environmental Assistance**

**Three Years Ended June 30, 1999**

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#### Key Findings and Conclusions:

- The Office of Environmental Assistance (OEA) did not have adequate internal controls over Pollution Prevention fees collected by the Department of Public Safety's Emergency Response Commission. The duties related to the invoicing, collecting, and recording of these fees were not properly segregated. The OEA should ensure that alternate controls are in place to ensure the proper collection of its fees. Except for this issue, we concluded that the OEA properly collected, deposited, and recorded pollution prevention fees and loan principal and interest repayments.
- We found that procedures for awarding and monitoring grants and loans were adequate, and the transactions were accurately recorded on the state's accounting system. Finally, we found the OEA had established policies and procedures to ensure that administrative expenditures were properly authorized, adequately supported, and accurately processed on the state's accounting system.

#### Background:

The mission of the Office of Environmental Assistance (OEA) is to protect Minnesota's environment and assure a sustainable economy through waste prevention and resource conservation. The Minnesota Waste Management Act (Minn. Stat. Chapter 115A) governs the agency's activities. The OEA provides technical and financial assistance to local governments, businesses, non-profits, and citizens to reduce pollution and manage waste. The activities of the OEA are financed mainly by legislative appropriations.

During the period of this audit, our work at the Office of Environmental Assistance focused on revenues, grants and loans, and administrative expenditures. The agency's response to our finding and recommendation is included in the report.

# Office of Environmental Assistance

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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
Renee Redmer, LPA	Audit Manager
Pat Ryan	Auditor-In-Charge
John Hakes	Senior Auditor
Valerie Wozniak	Auditor

### **Exit Conference**

We discussed the results of the audit with the following representatives of the Office of Environmental Assistance at the exit conference held on April 19, 2000:

Sherry Enzler	Director
Art Dunn	Strategic Directions Manager
Mary Palmer	Fiscal Services Supervisor
Patty Tobritzhofer	Accounting Officer



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

Representative Dan McElroy, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Sherry Enzler, Director  
Office of Environmental Assistance

We have audited the Office of Environmental Assistance for the period July 1, 1996, through June 30, 1999. Our audit scope included revenue, grants, loans, and administrative expenditures.

We conducted our audit in accordance with generally accepted auditing standards and *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 Office of Environmental Assistance complied with the provisions of laws, regulations, contracts, and grants significant to the audit. The management of the Office of Environmental Assistance 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 Office of Environmental Assistance. This restriction is not intended to limit the distribution of this report, which was released as a public document on May 4, 2000.

*/s/ James R. Nobles*

*/s/ Claudia J. Gudvangen*

James R. Nobles  
Legislative Auditor

Claudia J. Gudvangen, CPA  
Deputy Legislative Auditor

End of Fieldwork: February 4, 2000

Report Signed On: April 27, 2000

# Office of Environmental Assistance

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## Chapter 1. Introduction

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The mission of the Office of Environmental Assistance (OEA) is to protect Minnesota's environment and assure a sustainable economy through waste prevention and resource conservation. The Minnesota Waste Management Act (Minn. Stat. Chapter 115A) governs the agency's activities. The OEA provides technical and financial assistance to local governments, businesses, non-profits, and citizens to reduce pollution and manage waste. The activities of the OEA are financed mainly by legislative appropriations.

The OEA is currently under the direction of Sherry Enzler. The office has 70 employees, and its main office is located in St. Paul. The OEA also has regional offices located in Brainerd, Detroit Lakes, Duluth, Marshall, and Rochester.

Table 1-1 summarizes the OEA's financial activity during fiscal years 1997 through 1999.

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	<u>1997</u>	<u>1998</u>	<u>1999</u>
<b>Sources:</b>			
Appropriations	\$20,355,415	\$24,055,132	\$20,374,339
Less: Cancellations	(305,703)	(21,928)	(564,335)
Revenues <sup>(1)</sup>	465,900	193,896	402,143
Balances Forwarded In	4,030,528	1,852,772	2,757,803
Transfers In	1,596,645	1,630,217	2,709,235
Total	<u>\$26,142,785</u>	<u>\$27,710,089</u>	<u>\$25,679,185</u>
<b>Uses:</b>			
Grants	\$18,741,767	\$20,536,459	\$17,866,425
Payroll	3,341,211	3,203,020	3,516,815
Rent	284,364	261,997	329,639
Equipment	276,206	30,503	165,157
Supplies	218,974	95,884	135,387
Loans	275,000	58,165	0
Travel	125,515	113,982	123,969
Other Expenses	916,553	483,809	583,474
Transfers Out	110,423	168,467	124,573
Balance Forwarded Out	1,852,772	2,757,803	2,833,746
Total	<u>\$26,142,785</u>	<u>\$27,710,089</u>	<u>\$25,679,185</u>

(1) Dedicated revenues for use by OEA. In addition, the agency also collects non-dedicated revenue as shown in Table 2-1.

Note: Amounts include outstanding encumbrances as of April 6, 2000.

Source: Minnesota Accounting and Procurement System.

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## Chapter 2. Revenues

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### *Chapter Conclusions*

*The Office of Environmental Assistance (OEA) properly collected, deposited, and recorded its pollution prevention fees, and loan principal and interest repayments. However, pollution prevention fee processing duties were not adequately segregated at the Department of Public Safety (DPS). The OEA did not have alternate controls in place to ensure that it is collecting the proper amount of fees.*

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The Minnesota Toxic Pollution Prevention Act requires annual payments of pollution prevention fees. The fees support Minnesota's pollution prevention assistance activities. The Minnesota Pollution Control Agency and metro county hazardous waste offices provide information to OEA on the hazardous waste generators that are to be assessed the fee. The OEA invoices and collects pollution prevention fees based on hazardous waste generation. Since 1994, the Minnesota Emergency Response Commission (ERC), a division of the Department of Public Safety, began invoicing and collecting pollution prevention fees related to toxic chemical releases in combination with other related environmental fees. The pollution prevention fees are deposited into the Environmental Fund as non-dedicated revenue. The OEA also collects loan principal and loan interest repayments from local organizations.

Table 2-1 summarizes the non-dedicated revenue activity for the three fiscal years ended June 30, 1999.

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**Table 2-1**  
**Non-Dedicated Revenues by Source**  
**For the Three Fiscal Years Ended June 30, 1999**

	<u>1997</u>	<u>1998</u>	<u>1999</u>
Pollution Prevention Fees	\$ 1,020,447	\$ 886,574	\$901,329
Loan Repayments	216,864	438,045	75,677
Loan Interest	54,139	28,035	7,883
Total	<u>\$1,291,450</u>	<u>\$1,352,654</u>	<u>\$984,889</u>

Source: Minnesota Accounting and Procurement System.

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# Office of Environmental Assistance

## Objective and Methodology

Our specific objective for the pollution prevention fees, and loan principal and interest repayments was to answer the following question:

- Did the office properly collect, safeguard, deposit, and record pollution prevention fees, and loan and interest repayments?

To achieve this objective, we interviewed office staff to gain an understanding of the process for billing, collecting, and depositing receipts. In addition, we interviewed staff at the Emergency Response Commission to determine their procedures for billing, collecting, and depositing pollution prevention fees.

Our audit methodology included inquiries, analytical procedures, and testing of certain revenues processed by the OEA between the period of July 1, 1996, and June 30, 1999. We tested a sample of pollution prevention fees, and loan principal and interest repayments. We also verified that the OEA promptly deposited these receipts in the state treasury and recorded the amounts in the proper accounts on the state's accounting system.

## Conclusions

The Office of Environmental Assistance properly collected, deposited, and recorded its pollution prevention fees, and loan and interest repayments. However, pollution prevention fee processing duties were not adequately segregated at the Department of Public Safety (DPS). The OEA did not have alternate controls in place to ensure that it is collecting the proper amount of fees.

### **1. Duties over the processing of pollution control fees were not adequately segregated.**

Minn. Stat. 115D.12 specifies that the OEA is responsible for the billing and collection of pollution prevention fees. In 1994, the OEA and the Department of Public Safety's Emergency Response Commission (ERC) entered into an arrangement whereby the OEA would bill and collect the fees based on hazardous waste generation and the ERC would bill and collect the fees based on toxic chemical releases. The fees are deposited as non-dedicated revenue in the Environmental Fund. The ERC processed over 90 percent of the pollution prevention fees for the three-year period ending June 30, 1999.

We found that duties were not adequately separated at the ERC and that OEA did not have alternate controls in place to ensure that the proper fees were collected. The same individual at the ERC who collected pollution prevention fees was responsible for the following duties: posting the receipts to the accounts receivable system, posting the



## Office of Environmental Assistance

receipts to the state's accounting system, and preparing the bank deposit. Because one individual at the ERC had custody of the receipts, posted them to the accounts receivable

records, and prepared the deposit, 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 system and the related bank deposit.

### *Recommendation*

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

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## Chapter 3. Grants and Loans

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### *Chapter Conclusions*

*The Office of Environmental Assistance had adequate procedures for awarding and monitoring grants and loans. The OEA properly accounted for grant and loan disbursements and accurately recorded the transactions on the state's accounting system. Grant and loan disbursements were in compliance with applicable legal provisions for the items tested.*

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The largest category of expenditures at the OEA is for grant payments to local units of government, businesses, and non-profit organizations. The agency disbursed most grant funds for county waste reduction and recycling projects under the Governor's Select Committee on Recycling and the Environment (SCORE) grants. The legislature appropriated \$14,008,000 each year for block grants to counties. In addition, the OEA allocated 50 percent of the annual revenue received from the Metropolitan Landfill Abatement Account for grants to metropolitan counties. The agency also disbursed various other grants for the development of markets for recyclables and problem waste; the prevention, separation, and collection of waste; capital assistance; and grants that provide educational, technical, and research assistance to the public.

The OEA also has the ability to award loans under its capital assistance, market development, and used oil storage tank programs; although the agency did not issue any new loans during the scope of our audit. Table 3-1 shows grant disbursements by type.

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**Table 3-1**  
**Grant Disbursements**  
**For the Three Fiscal Years Ending June 30, 1999**

	<u>1997</u>	<u>1998</u>	<u>1999</u>
SCORE Grants	\$14,008,000	\$14,008,000	\$14,008,000
Business Assistance Grants	3,817,274	435,661	685,090
Competitive Grants	130,000	879,318	1,714,727
Capital Assistance Grants	0	3,500,000	0
Metro Landfill Grants	469,315	633,505	533,908
Local Recycling Development Grants	316,528	919,853	836,544
Other Grants	651	160,122	88,156
Total	<u>\$18,741,768</u>	<u>\$20,536,459</u>	<u>\$17,866,425</u>

Note: Amounts include outstanding encumbrances as of April 6, 2000.

# Office of Environmental Assistance

Source: Minnesota Accounting and Procurement System (MAPS).

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## Objectives and Methodology

We focused our review of grant and loan payments on the following objectives:

- Did the agency have sufficient controls to award and monitor grant and loan projects?
- Did the agency comply with applicable legal provisions when awarding and disbursing grants?
- Did the agency properly account for grant and loan activities on the state's accounting system?

We reviewed the process of awarding, monitoring, and disbursing of grants and loans. We reviewed the formula used in determining SCORE block grants. We tested, on a sample basis, grant disbursements for recipient eligibility, payment approvals, and ongoing monitoring procedures.

## Conclusions

The Office of Environmental Assistance had appropriate procedures for awarding and monitoring grants and loans. The OEA properly accounted for grant and loan expenditures and accurately recorded the transactions on the state's accounting system. Grant and loan expenditures were in compliance with applicable legal provisions for the items tested.

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## Chapter 4. Administrative Expenditures

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### *Chapter Conclusions*

*The Office of Environmental Assistance established policies and procedures to ensure that purchases were properly authorized, adequately supported, and accurately processed. Administrative expenditures were in compliance with applicable legal provisions and bargaining agreements for the items tested. Finally, administrative expenditures were accurately posted to the state's accounting system.*

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The OEA incurred payroll and other administrative expenditures for agency operations. The agency had 70 full-time positions. The office used the state's personnel and payroll systems. The Minnesota Pollution Control Agency performs the human resource functions under an interagency agreement. The OEA incurred \$3.5 million in payroll costs in fiscal year 1999.

The OEA leases office space from the Minnesota Pollution Control Agency for its main St. Paul office, as well as regional offices throughout the state.

### **Objectives and Methodology**

Our specific objectives for the review of administrative expenditures were as follows:

- Did the office have procedures to ensure that administrative expenditures were properly authorized, adequately supported, and properly reported on the state's accounting system?
- Did the office pay employee salaries and travel expenses in accordance with applicable bargaining agreements and legal provisions?
- Did the office purchase goods that were consistent with its duties and in compliance with state purchasing guidelines?
- Did the office pay rent based on valid lease agreements?

To achieve these objectives, we interviewed staff to gain an understanding of policies and procedures relating to payroll and to purchasing and paying for goods and services. We performed analytical procedures of payroll transactions and reviewed personnel records and bargaining agreements. We also performed analytical procedures of rent payments throughout the audit period. We reviewed documentation supporting expenditures for

## **Office of Environmental Assistance**

travel, supplies, and equipment for compliance with state purchasing guidelines and reasonableness.

### **Conclusions**

The Office of Environmental Assistance has established policies and procedures to ensure that purchases were properly authorized, adequately supported, and accurately processed. Administrative expenditures were in compliance with applicable legal provisions and bargaining agreements for the items tested. Finally, administrative expenditures were accurately posted to the state's accounting system.

## Office of Environmental Assistance

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### Status of Prior Audit Issues As of February 4, 2000

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**October 4, 1996, Legislative Audit Report 96-41** covered the two fiscal years ending June 30, 1996. The audit scope included payroll expenditures, administrative expenditures, grant and loan expenditures, and revenues. The report had three findings. Two findings related to prompt deposit of receipts and computer access controls. The OEA adequately resolved these two audit issues. The other audit finding related to SCORE grant obligations and final payments. The OEA has been working with the affected counties to obtain the final reports and to liquidate the final obligations in a more timely manner.

#### 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 Office of  
Environmental Assistance

April 25, 2000

James Nobles  
Legislative Auditor  
658 Cedar Street  
Saint Paul, MN 55155

**RE: LEGISLATIVE AUDIT RESPONSE**

Dear Mr. Nobles:

Thank you for this opportunity to respond to the audit report for the Minnesota Office of Environmental Assistance. The report indicates a need to address pollution prevention fee collection procedures. I have directed my staff to promptly resolve this issue in a manner that reflects fiscal responsibility and concern for our customers. We will report back to you on the outcome of this matter.

I appreciate the professional and courteous way in which your staff performed this audit.

Very truly yours,

*/s/ Sherry Enzler*

Sherry A. Enzler  
Director

cc: Mary Palmer

Lkuehn:LTR—JamesNobles