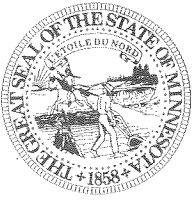


**MINNESOTA POLLUTION CONTROL AGENCY
MANAGEMENT LETTER
FISCAL YEAR 1986**

DECEMBER 1986

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Mr. Thomas Kalitowski, Executive Director
Minnesota Pollution Control Agency
520 Lafayette Road
St. Paul, Minnesota 55155

Dear Mr. Kalitowski:

We have reviewed certain accounting procedures and controls for your department as part of our statewide audit of the State of Minnesota's fiscal year 1986 financial statements and federal programs. The scope of our work has been limited to:

- those aspects of your department which have material impact on any of the state's various funds and account groups shown on the financial statements;
- federal programs included in the Single Audit Scope--CFDA # 66.418 (Construction Grants for Waste Water Treatment Works) and CFDA #66.505 (Water Pollution Control--Research, Development, and Demonstration); and
- the status of prior audit recommendations.

We emphasize that this has not been a complete financial and compliance audit of all programs within your department. The work conducted in your department is a part of our annual Statewide financial and federal compliance audit (Single Audit). The Single Audit coverage satisfies the federal government's financial and compliance audit requirements for all federal programs administered by your department in fiscal year 1986.

This management letter contains a reiteration of our prior recommendations which have not yet been fully implemented. Prior audit recommendations repeated in this text are denoted under the caption, "Prior Recommendations Partially Implemented." Attached to your management letter is a summary of the progress on the audit recommendations developed during our financial audit of Minnesota's fiscal year 1985 financial statements.

The current findings and recommendations included in this letter are presented to assist you in improving accounting procedures and controls. Progress on implementing these recommendations will be reviewed during our audit next year.

PRIOR RECOMMENDATIONS PARTIALLY IMPLEMENTED: The Pollution Control Agency needs to strengthen controls over the billing and receipt processing functions for hazardous waste generator and air and water quality fees, penalties, and reimbursements.

In 1984, the Legislature instructed the Pollution Control Agency (PCA) to collect fees, penalties, and cost reimbursements from solid and hazardous waste generators. In 1985, the Legislature also directed PCA to begin

collecting air and water quality fees. The PCA sent out approximately 3,500 hazardous waste generator, air and water quality invoices in fiscal year 1986. Approximately \$1 million in fees were deposited.

Our fiscal year 1985 report discussed several problems in the billing and receipt processing functions for hazardous waste generator fees. In response to our 1985 recommendations, a computerized billing and accounts receivable system was established in April 1986 for all agency fees. The agencywide system automatically numbers the invoices sequentially and prints a coding block on invoices to other state agencies.

The PCA created a senior account clerk position in the Accounting Division to administer the receipt processing function. Currently, checks are received by the mailroom clerk, who forwards the checks to the senior account clerk. The account clerk restrictively endorses the checks, makes copies of the checks, and prepares the deposit slips. The deposit slips are signed by the Accounting Division supervisor and the deposits are entered into the agencywide system by the account clerk. The account clerk provides copies of the receipt listings and corresponding remittance advices to the appropriate program divisions, including Solid and Hazardous Waste and Air and Water Quality. The account clerk also performs reconciliations from the agencywide system records to the Statewide Accounting System (SWA) receipt reports.

The reimbursement and fee checks forwarded to the senior account clerk are stored in the safe until he has sufficient time to endorse the checks, complete the deposit slips, and transmit the receipts to the State Treasurer's Office. The accounting personnel admitted that there were delays in the processing time for depositing receipts. This delay in making deposits occurs because the accounting personnel verify the receipt and accuracy of the amounts remitted with the actual checks rather than remittance advices. Minn. Stat. Section 16A.275 requires receipts totaling more than \$250 to be deposited daily. The state loses investment income when receipts are not deposited in a timely manner; the receipts are also subject to loss or theft over this extended time period.

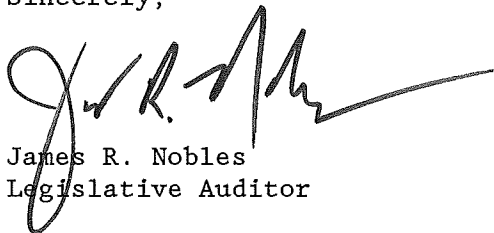
An inadequate segregation of duties exists in the receipt processing area because, in addition to processing receipts in the agencywide system, the senior account clerk endorses the checks, prepares the deposits, and also confirms the deposits to SWA. An employee who has no access to cash receipt records nor to related accounting records should open the mail, restrictively endorse the checks, list the receipts, and forward the checks to accounting for daily deposit. Reconciliation of receipts to the SWA reports should be performed by an employee independent of the receipt processing function. Segregation of these duties prevents errors which occur in the normal course of business by providing a review of each transaction by more than one person.

RECOMMENDATIONS:

1. *PCA should increase control over the receipt processing function by segregating the following duties:*
 - *the mail should be opened in the mailroom, checks restrictively endorsed, a list of receipts prepared and transmitted with the checks to the Accounting Division for deposit;*
 - *the mailroom list of receipts should be signed by the employee in the Accounting Division to acknowledge transmittal of the the checks and a copy provided to the mailroom employee;*
 - *the deposits should be prepared by an employee independent of the billing and receipt processing; and*
 - *the confirmation of deposits to SWA should be performed by an employee independent of the person who prepares the deposits.*
2. *Checks should be deposited in the State Treasury in accordance with Minn. Stat. Section 16A.275.*

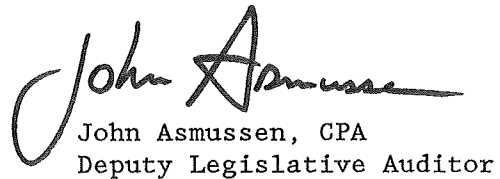
Thank you for the cooperation extended to our staff during this audit.

Sincerely,



James R. Nobles
Legislative Auditor

Attachment



John Asmussen, CPA
Deputy Legislative Auditor

December 29, 1986

POLLUTION CONTROL AGENCY

Attachment

STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND
PROGRESS TOWARD IMPLEMENTATION

The Pollution Control Agency needs to strengthen controls over the billing and receipt processing functions for hazardous waste generator fees, penalties, and reimbursements.

1. PCA should initiate the following procedures to improve controls over the billing process for hazardous waste generator fees:
 - sequentially number and properly account for the invoices; and
 - implement the Department of Finance's Operating Policies and Procedures for state agency billings.

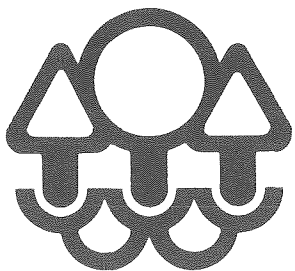
RECOMMENDATION IMPLEMENTED. The PCA established a computerized billing and receipt system in April 1986. The system sequentially numbers invoices and stamps completed coding blocks on state agency billings.

2. PCA should increase control over receipt processing by segregating the duties involving the cash receipts function as follows:
 - the mail should be opened in the mailroom, checks restrictively endorsed, a list of receipts prepared and transmitted with the checks to the Accounting Division for deposit;
 - the Accounting Division should deposit the receipts daily in accordance with Minn. Stat. Section 16A.275; and
 - the mailroom employee should provide the appropriate program divisions, such as Solid and Hazardous Waste, copies of receipt listings and the corresponding remittance advices for further processing.

RECOMMENDATION PARTIALLY IMPLEMENTED. The senior account clerk has provided the appropriate program divisions copies of receipt listings and corresponding remittance advices since April 1986. See current recommendations #1 and #2.

3. The program division staff should independently confirm the receipts, including state agency invoices, to the SWA reports.

RECOMMENDATION NOT IMPLEMENTED. See current recommendation #1.



Minnesota Pollution Control Agency

December 29, 1986

Mr. John R. Nobles
Legislative Auditor
Veterans Service Building
St. Paul, MN 55155

Re: Fiscal Year 1986 Statewide Financial Audit

Dear Mr. Nobles:

This is in response to your comments and recommendations that are included in your draft Management Letter Report to the Minnesota Pollution Control Agency (MPCA) dated December 11, 1986. The report addresses the partial implementation of a prior recommendation regarding the strengthening of accounting procedures to ensure adequate internal control over billing and receipt processing. The noted exception and MPCA comments with planned actions are as follows:

"Prior Recommendation Partially Implemented: The Pollution Control Agency needs to strengthen controls over billing and receipt processing functions for hazardous waste generator and air and water quality fees, penalties and reimbursements."

Findings in this area highlighted the fact that the MPCA has developed and implemented a computerized billing and accounts receivable system for all agency fees. The MPCA also created a Senior Account Clerk position in the Fiscal Services Unit to administer the receipt processing function. It is the inadequate segregation of related duties that are primarily done by this one position which constituted only a partial implementation of the prior recommendation.

The MPCA would like to emphasize that the implementation of the whole fee program and administrative process has placed a significant burden on existing and prescribed agency resources, (fiscal and human). As a result, the MPCA is relatively satisfied with its progress to date and its accomplishments in this

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Mr. John R. Nobles
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area since the original recommendation was cited. While the existing procedures/process may not be theoretically acceptable and/or correct, it should be noted that all receipts and funds have been properly accounted for and reconciled to the appropriate SWA accounts. However, because of the MPCA's cognizance and appreciation for the use of sound accounting practices, additional effort and emphasis will be placed on fully implementing your recommendation.

Therefore, in order to implement the principles of your recommendation regarding the segregation of duties and adherence to M.S. 16A.275, the MPCA's Accounting Director will analyze alternatives of segregating these related duties/tasks among other members of the Fiscal Services Unit. Due to organizational structure, current position responsibilities and the existing work load, the use of the copy/mail room staff person will not be considered.

In summary, I believe the initiative of re-evaluating the duties/tasks assigned to the Fiscal Services staff and the resulting actions that will be taken by the MPCA to internally reassign position responsibilities will alleviate the question of the MPCA not providing adequate internal control or complying with generally accepted procedures. In turn, this will hopefully accommodate and satisfy the recommendations found in your Management Letter Report.

Sincerely,


for Thomas J. Kalitowski
Executive Director

TJK/JK/pt