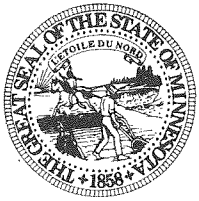


**WASTE MANAGEMENT BOARD
FINANCIAL AND COMPLIANCE AUDIT
FOR THE PERIOD JULY 1, 1985
THROUGH OCTOBER 7, 1988**

APRIL 1989

**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**

89-32



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator John E. Brandl, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

and

Mr. Gerald L. Willet, Commissioner
Pollution Control Agency

Mr. Joseph M. Pavelich, Former Chairman
Waste Management Board

Audit Scope

We have completed a financial and compliance audit of the Waste Management Board for the period July 1, 1985 through October 7, 1988. The Governor abolished the Waste Management Board on October 7, 1988 and transferred its functions, programs and staff to the Pollution Control Agency. Chapter 1 provides a brief description of the board's activities and finances. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office Government Auditing Standards, and accordingly, included such audit procedures as we considered necessary in the circumstances. Fieldwork was completed on February 17, 1989.

The objectives of the audit were to:

- verify that the board's financial transactions were made in accordance with applicable laws, regulations and policies, including Minn. Stat. Chapter 115A, and other finance-related laws and regulations; and
- evaluate the recording and reporting of financial transactions on the statewide accounting (SWA) system.

Management Responsibilities

The management of the board was responsible for the board's compliance with laws and regulations. We selected and tested transactions and records from the programs administered by the board. The purpose of our testing of transactions was to obtain reasonable assurance that management had, in all material respects, administered its programs in compliance with applicable laws and regulations.

Audit Techniques

During our audit, we employed a variety of audit techniques. These included, but were not limited to, auditor observation, interviews with agency staff, analytical reviews to identify unusual transactions or

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trends, and the examination of documentation supporting a representative number of transactions. Random sampling techniques were used to assure that representative samples of transactions were chosen. However, the use of random sampling did not prohibit us from reviewing additional transactions which may have come to our attention during the audit.


Conclusions

Chapters 2-4 of this report contain our findings, observations, and conclusions on the operation of the Waste Management Board. Chapters 2 through 4 discuss compliance issues, unreasonable expenditures, and internal control concerns, respectively. Since the Waste Management Board no longer exists as an independent state agency, we make no specific recommendations to the board.

Pursuant to Minn. Stat. Section 3.975, this report shall be referred to the Attorney General. The Attorney General has the responsibility to ensure the recovery of state funds and in fulfilling that role may negotiate the propriety of individual claims.

We thank the staff of the Waste Management Board and the Pollution Control Agency for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

February 17, 1989

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AUDIT PARTICIPATION

The following members of the Office of the Legislative Auditor participated in this audit:

John Asmussen, CPA	Deputy Legislative Auditor
Thomas Donahue	Audit Manager
Jean Mellett, CPA	Auditor-in-Charge
Beth Hammer	Staff Auditor

EXIT CONFERENCE

An exit conference was held with the following staff from the Pollution Control Agency on April 10, 1989:

Gerald L. Willet	Commissioner
Michael Robertson	Deputy Commissioner
Keith Ness	Assistant Director
John Retzer	Accounting Director
Doug Watnemo	Controller, Department of Finance

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CHAPTER 1. INTRODUCTION

The Waste Management Act of 1980 created the Waste Management Board as a temporary state agency. The board reported to the Legislature through the Legislative Commission on Waste Management. The objectives of the board were to be met prior to its June 30, 1987 termination date. In 1986, the Legislature extended the board's termination date to June 30, 1992, and in 1987 repealed the law mandating the board's dissolution. On October 7, 1988 the Governor abolished the board by executive order. The board's programs and staff were transferred to the Pollution Control Agency (PCA) and the Environmental Quality Board (EQB).

The Governor, with the advice and consent of the Senate, appointed the board's nine members. Each member, with the exception of the chair, represented one of the state's eight congressional districts. The chair served at the pleasure of the Governor for a term coterminous with that of the Governor. The chair is the executive and operating officer of the board. Robert H. Dunn was the board's first chair, serving until August 1985. William Walker began serving as the board's second chair on September 3, 1985. The board's last chair was Joseph Pavelich who began serving on January 5, 1987.

The Waste Management Act directed the board to acquire a site for a hazardous waste facility. It also directed the board to provide loans and grants for solid waste processing facilities that demonstrated alternatives to landfills. The Act gave the board up to \$6.2 million in bonding authority for the hazardous waste siting program. It also provided up to \$8.8 million in bonding authority for the solid waste demonstration program.

A 1985 law created a capital assistance program for funding solid waste processing facilities and projects. It provided financial and technical assistance for waste-to-energy facilities, recycling plants, transfer stations, and special waste stream facilities. The 1985 law provided up to \$11.4 million in bonding authority for the program. In 1987 the Legislature authorized an additional \$4 million in bonding authority for the program.

The schedule below summarizes the board's bond activity since its inception:

<u>Program</u>	<u>Authorized</u>	<u>Issued</u>	<u>Remaining</u>
Hazardous Waste Siting	\$ 6,200,000	\$ 3,700,000	\$2,500,000
Solid Waste Demonstration	8,800,000	8,800,000	-0-
Capital Assistance (1985)	11,400,000	11,300,000	100,000
Capital Assistance (1987)	<u>4,000,000</u>	<u>-0-</u>	<u>4,000,000</u>
	<u>\$30,400,000</u>	<u>\$23,800,000</u>	<u>\$6,600,000</u>

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In 1984 the Legislature suspended the hazardous waste siting program. It directed the board to investigate Minnesota's need for a hazardous waste disposal facility. Although in 1986 the Legislature authorized the board to seek volunteer hazardous waste sites, none have been acquired to date. As of October 1988, the board had approved nine demonstration grants and eight demonstration loans under the demonstration program. Also, the board approved thirteen capital assistance grants under the capital assistance grant program.

The board's operations and programs have been financed primarily through general fund appropriations and bond proceeds. The following schedule summarizes the board's expenditures for the last three years by fund:

Fund	Waste Management Board		
	Operating Expenditures for Fiscal Years		
	1986	1987	1988
General	\$1,424,340	\$1,561,173	\$1,914,261
Special	0	0	120,427
Motor Vehicle	0	0	399,579
Siting	0	184,136	903,976
Demo	3,552,372	1,650,709	0
Cap Asst (85)	0	2,104,538	2,831,905
Cap Asst (87)	0	1,105	33,172
Water Pollution	0	0	25,000
	<u>\$4,976,712</u>	<u>\$5,501,661</u>	<u>\$6,228,320</u>

Source: Statewide Accounting System Appropriation Balance Within Fund Report

During fiscal year 1988 and possibly earlier, the board experienced personnel conflicts within its upper management. In August 1988, Mr. Pavelich, the board's chair, terminated his assistant and another board employee. Board members and members of the Legislative Commission on Waste Management (LCWM), and other legislators and government officials expressed concern. The chair's authority to terminate employees without the consent of the board was challenged. The Governor was encouraged to remove the chair from his position. It was amidst this debate that the Governor decided to abolish the Waste Management Board. The Governor justified his decision on the basis of streamlining state government.

Under the Governor's executive order, all of the board's programs, except the hazardous waste siting program, were transferred to the PCA. The siting program was transferred to the EQB. However, the funds of the siting program remained with PCA and did not transfer to the EQB.

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In the 1989 legislative session, a bill was introduced to reinstate the Waste Management Board. The bill would also limit the Governor's ability to abolish a state agency with an executive order. As yet the bill has not passed in either the House or Senate.

The remaining three chapters of this report discuss our findings and observations surrounding the board's operations and activities. The second chapter focuses on those finance-related legal provisions where the board was not in compliance. Of primary concern is the board's inappropriate use of bond funds to pay general operating expenses of the board. Also, the board exceeded its authority to spend solid waste demonstration bond funds on related program administrative costs. The third and fourth chapters identify specific unreasonable board expenditures and major structural internal control weaknesses, respectively.

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CHAPTER 2. COMPLIANCE ISSUES

The scope of our audit included a review of the board's operating statute, Minn. Stat. Chapter 115A, its appropriation laws and other finance-related regulations. Our compliance review focused on the bond spending provisions specified within the Laws of 1980, 1981, 1983, 1985, 1987, and 1988. The board had the authority to issue bonds and to spend the proceeds for specific purposes. We also reviewed board operations for compliance with overall state appropriations, policies and procedures. Specifically, we reviewed receipts, contracts, payroll, travel expenses, and program grants and loans.

We reviewed the internal control structure as it related to the compliance issues we tested. We found a serious disregard of many state administrative policies and procedures. These issues are discussed further in Chapter 4 of this report and to a lesser extent in Chapter 3. Since the board's functions, programs, and staff were transferred to the Pollution Control Agency (PCA) on October 7, 1988, the issues identified in Chapter 4 are not control weaknesses under the present structure.

In this chapter, however, we discuss two noncompliance issues that present administrative problems for the PCA to help solve. Those problems are:

- use of bond funds for purposes other than those specified in law; and
- failure to comply with specific bargaining unit provisions concerning management overtime.

We also discuss an additional issue concerning the use of contracts for inappropriate contractual services.

Improper Payment of Routine Operating Expenses from Bond Funds

The board used bond funds from the hazardous waste siting and capital assistance grant programs to pay routine operating expenses. These expenses were not directly associated with the administration of either program and should have been paid from the board's general fund appropriation.

Article XI, Section 4 of the state constitution restricts the state's power to contract public debt to certain authorized purposes. Section 5 identifies the authorized purposes for public debt. Among other purposes it may be used, "(a) to acquire and to better public land and buildings and other public improvements of a capital nature. . . ." Section 7 further provides in part that, ". . . each law authorizing the issuance of bonds shall distinctly specify the purposes thereof and the maximum amount of the proceeds authorized to be expended for each purpose."

Minnesota Laws of 1980, Chapter 564 Article XII Section 1, Subdivision 3(b) established the hazardous waste siting program. It provided \$6.2 million in bonding authority for the acquisition of hazardous waste sites and

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buffer areas for hazardous waste facilities. It also specified that, "up to \$1,200,000 is available for expenditure before June 30, 1981 for costs of staff and independent professional services needed for the selection and acquisition of sites." Chapter 564, Article II Section 3, Subdivision 4 further provided how the bonds were to be serviced. It said: ". . . the property shall be leased to the owner and operator of the hazardous waste facility located thereon at a rate sufficient to pay debt service on the bonds which provided funds used to acquire the property. . . ."

Minnesota Laws of 1983, Chapter 301, Section 222 increased the limit of bond funds for administration from \$1.2 to \$3.2 million and eliminated the 1981 expiration date. Minnesota Laws of 1988, Chapter 685, Section 42, further amended the legislation and allowed the total \$6.2 million to be spent for "costs of staff and independent professional services needed for the selection and acquisition of sites."

In addition, Laws of 1985 established the state capital assistance grant program. It provided \$11.4 million in bonding authority to finance grants to local projects; specifically, to develop feasible and prudent alternatives to solid waste disposal. Additionally, the board could spend up to \$750,000 for administration and technical and professional services. By July 1988 the board, through the Department of Finance, had issued \$11.3 million in bonds. In 1987 Laws, Chapter 400, Section 6, the board received an additional \$4 million in bonding authority for the program. The board could spend up to \$240,000 for administration and technical and professional services. To date, no bonds have been sold. However, approximately \$33,172 in administrative costs have been paid out of this account.

In January 1988, the board faced an apparent deficit in its general operations account. According to board staff and available accounting records, the cause of the impending deficit was increased rent, salary, computer, and travel costs. During February 1988, the board began paying general operating expenses from the bond programs. Previously, payment of these expenses were out of the board's general fund account. Examples of expenses paid from the bond programs include travel, supplies, magazine and newspaper subscriptions, telephones and xeroxing costs. State law permitted the board to use bond funds to pay certain administrative costs, primarily personnel and consultant costs, for activities directly related to the hazardous waste siting program. However, the law did not authorize the board to pay its general operating expenses from bond funds.

Because our examination was based on a sample of transactions, we did not determine the total amount of bond funds inappropriately used to pay routine operating expenses. We identified approximately \$258,000 in expenses that are questionable and believe this amount to be conservative. We informed both the PCA and the Department of Finance of our finding and discussed with them our concerns. The PCA and the Department of Finance are currently determining the total amount. PCA has identified over \$450,000 in potential inappropriate payments. The calculation is a time consuming process in which individual invoices are reviewed to determine propriety. At the conclusion of this work, we believe the hazardous waste

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siting and capital assistance grant programs should be reimbursed from the general fund to the extent of the inappropriate payments.

Administrative Costs Paid from Solid Waste Demo Program Exceeded Authority

Minnesota Laws of 1980, Chapter 564 Article XII Section 1, Subdivision 3(c) established the solid waste processing facility demonstration program. It provided \$8.8 million in bonding authority for demonstration projects to political subdivisions for solid waste facilities and transfer stations. It also specified that, "up to 5 percent is available for administration and technical and professional services." Thus, administrative costs were limited to \$440,000. In fact, through February 1989, \$566,872 was spent on administrative costs. The board did not have the authority to charge the excess administrative costs to the demonstration program. Accordingly, the \$126,872 must be repaid to the bond fund.

Noncompliance with Management Overtime Provisions

Generally, managers and supervisors are not compensated for overtime. Bargaining agreements recognize that managers and supervisors, because of the nature of their duties, may work in excess of the normal work day and/or payroll period. Such agreements generally provide the manager or supervisor with the flexibility to adjust their work schedule in subsequent days or payroll periods. The agreements do not provide for overtime payment or guarantee hour-for-hour time off for extra hours worked, however.

According to Minnesota Association of Professional Employees (MAPE) and the Middle Management Association (MMA) agreements, managers may be compensated for overtime hours worked if:

- they have been assigned to a special project that is in addition to their normal duties or workload; and
- the manager receives advance approval from the appointing authority.

The appointing authority also decides if overtime is to be compensated in cash or time off. The agreements also provide that overtime may be accrued as compensatory time off to a maximum of 80 hours if approved by the appointing authority.

The board paid out \$79,817.69 in overtime during fiscal year 1988 to 55 of its employees. Of those employees, 45 were either MAPE or MMA employees who had not met the eligibility criteria. We tested 37 examples of overtime earned. In all cases reviewed, no evidence indicated that the managers had been assigned to a special project or had received prior approval of the appointing authority. The overtime work appeared to be part of the employees normal job duties. Indeed, overtime payments to board managers was identified as a problem as early as July 1, 1986, in a memo from the board's administrative director to the board staff. However, the overtime continued to be credited and paid.

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We believe the overtime was improperly paid to board managers. We intend to refer this report to the Attorney General for review. The Attorney General has the responsibility to ensure the recovery of state funds and in fulfilling that role may negotiate the propriety of individual claims. The PCA should seek reimbursement of overtime payments from board managers and supervisors, if directed by the Attorney General.

Other Compliance Concerns

Contrary to state law, the board contracted for both publicity representatives and the performance of routine staff work. Minn. Stat. Section 15.057 and Department of Administration policies prohibit such contracts. Minn. Stat. 15.057 states:

No state department, bureau or division, whether the same operates on funds appropriated or receipts or fees of any nature whatsoever, except the department of transportation, the department of trade and economic development, the game and fish division, the department of jobs and training, and the state agricultural society shall use any of such funds for the payment of the salary or expenses of a publicity representative. The head of any such department, bureau, or division shall be personally liable for funds used contrary to this provision. This act shall not be construed, however, as preventing any department, bureau, or division from sending out any bulletins or other publicity required by any state law or necessary for the satisfactory conduct of the business for which such department, bureau, or division was created.

Department of Administration Contract Management Policy and Procedure Statement ADM-188 III states, in part:

Consultant or professional/technical services contracts shall not be used to:

- A. Evade position control restrictions, salary limitations or competitive employment procedures.
- B. Engage individuals or firms to represent a state agency in a legislative matter.
- C. Make policy or management decisions.

Board contracts with Media Rare, Mona Meyer and McGrath, Hill and Knowlton, Inc. and others appear to violate policy and statute. The board's March, 1987 supplemental agreement with Media Rare, Inc. requires the consultant to "assist Waste Management Board staff in communicating and coordinating volunteer siting program activities with the media, organizations and all other clientele interested in or affected by Waste Management Board stabilization and containment programs." (Emphasis added.) Two subsequent supplemental agreements provide for "additional assistance of the same type." Media Rare invoices request payment for "media contacts," "legislator meetings," "budget contacts and calls," and "discussing budget issues with senate staff," among other things.

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The board's March 1988 supplemental agreement with Mona Meyer and McGrath requires the following assistance from the public relations firm:

- identification of the appropriate target groups to receive public affairs information on the program;
- preparation of general public announcements on all aspects of the program;
- coordination of an effective face-to-face information release;
- preparation of specific new releases for local target groups as appropriate;
- coordination of news conferences as needed; and
- development of radio actualities.

The board's proposal to extend the agreement with Mona Meyer and McGrath states: "There are immediate needs for professional public affairs assistance with the media and numerous other communication opportunities."

The board also contracted for public affairs assistance from the public relations firm of Hill and Knowlton, Inc. The board's supplemental agreement #1 with Hill and Knowlton, Inc. requires the contractor to "assist the State in preparing and presenting a report to the Legislative Commission on Waste Management on research under this contract." Hill and Knowlton's invoice for presenting the report notes that the consultant attended the Legislative Commission meeting at the request of a WMB staff member. Previously, the Hill and Knowlton firm had developed a communication plan for the WMB which focused on legislative strategies.

The board contracted for services which should have been performed by board staff. Supplemental agreement #1 to the Hill and Knowlton contract provides:

Contractor shall assist the State in the review of applications, and to make follow-up telephone calls on candidates for public affairs positions with the Waste Management Board.

A January 15, 1987 letter explaining the agreement states that Hill and Knowlton was "involved in the process of interviewing to replace the public affairs director."

The board also paid consultants to review grant applications. A 1986 contract with Pope-Reid requires the contractor to "evaluate the technical and financial feasibility of eight hazardous waste processing facilities grant applications." A 1988 agreement provides for ". . . a qualitative and quantitative analysis of one application for assistance under the board's Solid Waste Processing Facility Capital Assistance Program." The firms of Hickok and Associates and Cal Recovery also were engaged to review capital assistance applications.

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CONCLUSIONS

The board was not in compliance with several provisions of its operating statute, Minn. Stat. Chapter 115A, its appropriation laws, and certain other finance-related provisions. We found that the board:

- expended bond funds for its general operations during the second half of fiscal year 1988;
- overspent its allotted bond funds for administration out of the solid waste demonstration program;
- failed to follow the overtime provisions specified within the MAPE and MMA bargaining agreements, under which overtime could be paid; and
- inappropriately contracted for publicity representatives and the performance of routine staff work.

The first two issues will require corrective action by PCA. The major task facing the PCA is to reimburse the hazardous waste siting and capital assistance grant programs. The PCA should work with the Department of Finance to determine the total bond dollars inappropriately spent and from what source the reimbursement will come. Also, the solid waste demonstration program should be reimbursed \$126,872 for administrative costs paid in excess of the authorized limit. The PCA and the Department of Finance also must work together, as explained in Chapter 4, to determine the proper account balances for each of the board's bond programs. This report is being referred to the Attorney General for review. The PCA should seek reimbursement of overtime provisions from board managers and supervisors, if directed by the Attorney General.

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CHAPTER 3. UNREASONABLE EXPENDITURES

This chapter includes our observations concerning board expenditures which we think were unreasonable. We think they were unreasonable because under the circumstances, they seem excessive or unnecessary. The expenditures identified were primarily classified as travel and subsistence payments. Specific control weaknesses associated with the payments are discussed in Chapter 4.

The board's financial condition should have led to cutbacks, but that did not occur. For example, travel costs for the board rose steadily over the last three years, as shown in the following schedule:

<u>Fund</u>	Waste Management Board		
	<u>Travel Expenditures</u>		
	<u>Fiscal Year</u>		
	<u>1986</u>	<u>1987</u>	<u>1988</u>
General	\$84,628	\$110,190	\$185,901
Bond	-0-	-0-	78,875
Motor Vehicle	-0-	-0-	9,171
Total	<u>\$84,628</u>	<u>\$110,190</u>	<u>\$273,947</u>

Source: Statewide Accounting System: Disbursement Summary.

At the beginning of fiscal year 1988, the board paid travel expenses from its general operations account. However, by the end of the year all travel except board member travel, was paid with bond funds. As explained in Chapter 2, the board subsidized its general operations with bond funds from its siting and capital assistance programs. The board did not curtail travel expense, even when faced with a deficit in its general operating account.

In addition to the extent of travel, we identified several questionable travel and subsistence expenditures. For example, travel to various waste facilities in the United States, Canada and Europe, out-state board meeting costs and board sponsored conferences.

- In November 1987, the board chairman, six board members and two board staff travelled to Nyborg, Denmark to tour a hazardous waste facility. The cost of this trip was \$16,126.68 as follows:

Airfare for nine people	\$ 5,459.00
Meals	1,482.13
Lodging	4,420.11
Telephone	1,056.23
Travel in Denmark	1,262.33
Board member per diem	2,250.00
Miscellaneous expenses	196.88
	<u>\$16,126.68</u>

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- On May 20 and 21, 1988, the board held a hazardous waste conference at the Scanticon Hotel in Plymouth, Minnesota. The cost of the conference package, paid with bond siting funds, was \$17,635.52. In addition, the board paid a number of contractors to attend the conference. One of the companies, Chem Security, Ltd., was paid the following for attending the conference:

Preparation time	4 hrs.	\$ 400.00
Travel time	16 hrs	1,600.00
Meeting	11 hrs.	1,100.00
Airfare		869.95
Car rental		109.93
Meals and miscellaneous		<u>39.00</u>
		<u>\$4,118.88</u>

The practice of paying consultants to attend state sponsored conferences is highly unusual.

- Two months later, the board held a hazardous waste seminar at Ruttger's Bay Lodge in Deerwood, Minnesota. The cost of the seminar, also paid with bond siting funds, was \$6,513. The board held an extended board meeting at Ruttger's Bay Lodge five days after the seminar. The cost of accommodations and banquet food, paid from the board's general operating account, totalled \$7,704. This cost does not include board member per diems, mileage costs or additional meal costs.

We noted several other travel expenditures which appear to be unreasonable and unnecessary. For example:

- On at least two occasions the board paid travel expenses for individuals who were not board members or employees. A Stearns County resident was reimbursed \$990.60 for driving to Swan Hills, Alberta to view a hazardous waste facility. According to board staff, the justification for reimbursement was that he supported the development of a hazardous waste facility in Stearns County. We do not believe the board had the authority to pay these costs.
- On another occasion, the board paid \$1,382.76 to send an employee of another state agency to a hazardous waste conference in Europe.
- During fiscal year 1988, the board paid approximately \$5,000 to various metropolitan motels. Apparently, rooms were rented for meetings and employees who found it inconvenient to return home after a late meeting.
- The board also paid invoices for meals served at restaurants in the area, but does not show what public purpose was served or who was present.

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We question the reasonableness and necessity of these expenses.

CONCLUSIONS

- The board showed a general lack of good judgment in controlling and paying certain travel and subsistence expenditures. Specifically, in all situations we tested the board failed to follow state travel policies over international and national travel, conferences and seminar expenses and additional expenses for motel rooms or meals within the metropolitan area. In most cases the board failed to adequately document the public purpose or nature of the expenditure.

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CHAPTER 4. INTERNAL CONTROL CONCERNS

The Governor abolished the board and transferred its functions, programs and staff to the PCA before our audit began. As a result, the board's functions, programs, and staff are now operating under the control structure in effect at the PCA. However, as a part of our audit we looked at the control structure of the board as a secondary audit objective. While we are not making specific recommendations, the PCA should consider the nature and implications of the weaknesses we identified and make sure they have been corrected.

We have significant concerns with the internal control structure as it existed at the board. Although a state agency, the board repeatedly disregarded many policies and procedures that a state agency is suppose to follow to ensure good financial management.

Inaccurate Accounting Records Maintained for Bond Programs

The accounting activity of the board's bond fund programs identified in Chapter 2 is recorded on the statewide accounting (SWA) system. The three programs, financed entirely through bond proceeds, are accounted for separately on the system. For each of the programs the board established an appropriation account and corresponding allotment accounts. However, the board did not exercise due care and diligence in the maintenance of the accounting information for its bond programs.

On several occasions bond proceeds and expenditures were deposited to and paid out of the wrong program accounts. In 1983, \$500,000 of hazardous waste siting program bond proceeds were deposited into the solid waste demonstration program account. In March 1984, \$1,500,000 in siting bond funds were again erroneously deposited into the demonstration program account. This error was corrected in June 1984. However, to date, the \$500,000 erroneously deposited to the demonstration program has not been corrected. In 1985, \$2,700,000 in capital assistance bond proceeds were erroneously deposited into the demonstration program account. The Department of Finance, in 1988, transferred \$2.7 million from the demonstration program account to the capital assistance account to correct the 1985 error.

During fiscal years 1986 and 1987, four solid waste demonstration program grants and loans amounting to \$1,262,215, were inappropriately paid from the capital assistance program account. Conversely, six capital assistance program grants amounting to \$3,278,291, were inappropriately paid from the demonstration program account. We can find no supporting documentation to indicate that these errors have been corrected.

In addition, Laws of 1985 established the state capital assistance grant program and provided that "the balance of the appropriation from the state waste management fund made by Laws 1980, chapter 564, article 12, section 3(c), that is not encumbered, or obligated by resolution of the waste management board, by June 30, 1985, and any amount obligated by June 30

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that later becomes unobligated, but not more than \$3,600,000, is appropriated to the board for this purpose." Although the board established an appropriation account for the state capital assistance grant program, no transfer of funds from the solid waste demonstration program has been made.

The board apparently made a decision not to rely on the accounting information shown on the statewide accounting system or at least was not concerned about its accuracy. Indeed, the board would have a very difficult time trying to reconstruct, with accuracy, the financial activities of each of the bond programs. This is partially because the board did not retain any of the monthly SWA reports necessary to reconcile their activities to. Furthermore, the board did not, on a routine basis, reconcile the SWA reports, including receipts or disbursements to its monthly activities. As a result, the accuracy of the accounting information for the bond programs is questionable. Errors would have been easily detected if monthly reconciliations were performed. We believe the board was aware of the larger errors, such as the ones described above, but failed to make the necessary corrections.

Because of the lack of integrity within the accounting records, we have some other concerns. For example:

- The solid waste demonstration account balance is overstated by \$3,000,000 which should be reflected in the hazardous waste siting program account. This consists of \$2.5 million in bonding authority for yet unissued bonds and \$500,000 in bond proceeds inappropriately deposited to the demo account.
- In 1987 Laws, Chapter 400, Section 6, the board received an additional \$4 million in bonding authority under the capital assistance program. To date, no bonds have been sold. However, the issue has been recorded on SWA in a manner which would permit the \$4 million to be expended.
- As previously discussed in Chapter 2, administrative costs allowed to be expended under the demonstration program were exceeded.

Board Receipts

The board collected loan repayments from its waste tire and the solid waste demonstration programs. We noted the following weaknesses regarding loan receipts:

- Loan repayments were not deposited promptly.
- Receipts were not reconciled on a monthly basis.
- Receipts and loan balance confirmations were not sent to the Department of Finance in a timely manner.

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Minn. Stat. 16A.275 provides that "an agency shall deposit receipts totaling \$250 or more in the state treasury daily." We identified six loan repayments that were held between 11 and 59 days before being deposited. The average amount of each repayment was \$41,769. In order to comply with the statute the board should have deposited its loan receipts on the day they were received.

The Department of Finance operating policy and procedure 06:06:03 requires agencies to reconcile receipts on a monthly basis. We also noted that a waste tire loan repayment amounting to \$5,352 was erroneously deposited into the solid waste demonstration program account. The error was not detected because the board did not reconcile monthly receipts to deposits as explained previously. The error was brought to the boards attention and it was subsequently corrected.

Currently, state agencies send copies of loan repayment deposits to the Department of Finance, so that loan receivable balances may be updated. The board, however, did not sent this documentation to the Department of Finance or promptly returned loan balance confirmations. As a result, the balances required significant year-end adjustments.

Board Disbursements

We noted the following internal control weaknesses in the disbursements area:

- Inadequate separation of purchasing, receiving and disbursing functions.
- Failure to retain required reports and supporting documentation.
- Failure to reconcile expenditures on a monthly basis.

The board's accounting staff often completed and signed purchase orders for other employees, ordered goods or services and authorized invoices for payment. In 31 out of 54 purchases we tested, the accounting staff ordered merchandise and coded invoices for payment. In addition, the board did not retain evidence that goods had been received. Someone independent of the accounting function should have authorized the purchase orders. Further, the accounting unit should have paid the invoice only after proper documentation showed the receipt of goods. The documentation (i.e., packing slips, receiving reports) should have been attached to the board's copy of the paid invoice and appropriately filed.

The board did not reconcile expenditures monthly. Further, they did not retain the statewide accounting report normally used to reconcile expenditures. Waste Management Board staff paid many expenses from the wrong accounts. For example, \$4,540,506 in grants and loans were paid from the wrong program accounts. The board also mistakenly paid invoices for services which the board did not receive. Specifically, a PCA employee indicated that the board had paid telephone bills for the Bloomington National Guard Armory.

WASTE MANAGEMENT BOARD

Board Travel Expenses

We noted several control weaknesses over travel and subsistence in the following areas:

- The board did not receive Department of Employee Relations approval to pay international travel expenses;
- The board did not complete special expense requests for restaurant meals provided for groups, motel rooms rented in the Twin Cities area, board sponsored meetings and seminars and Canadian travel;
- Expense reimbursements sometimes exceeded the standard rate;
- Occasionally, advances were processed more than 10 days before the trip date; and,
- Certain expense reports and invoices were missing or incomplete.

On three occasions during fiscal year 1988, the board reimbursed staff, board members, and others for European travel. The board did not request or receive Department of Employee Relations approval to pay these special expenses as required by Department of Employee Relations administrative procedure 4.4. This procedure permits:

Expense reimbursement for international travel authorized by the appointing authority and approved by the Commissioner of DOER. If an approved plan or specific provisions are not approved in advance, reimbursement limits for international travel will be the same as out of state travel provisions contained in the appropriate collective bargaining agreement or plan.

Although Waste Management Board staff did not request DOER's approval to pay international travel expenses on any of the three occasions in fiscal year 1988 when board or staff members travelled to Europe, staff did complete a special expense request after nine board and staff members travelled to Denmark. The request, however, understated actual trip expenses and was not sent to DOER. One Waste Management Board employee received reimbursement of up to \$25 for dinner meals in Denmark. Because the trip was not approved in advance, the employee was entitled to receive no more than the out-of-state bargaining agreement rate, which is \$14 for dinner meals.

Pursuant to Department of Employee Relations administrative procedure 4.4, the board developed a special expense procedure. The procedure, which was approved by DOER, permitted the board chair to authorize Canadian travel. However, the procedure required staff to document Canadian travel, as well as other expenses which were not covered by bargaining agreements, with special expense requests. Board staff rarely complied with the procedure. Staff routinely paid invoices for Canadian travel, as well as rental of Twin Cities area motel rooms, restaurant meals for large groups, seminars and meetings, without authorization to pay special expenses.

WASTE MANAGEMENT BOARD

Board Contracts

We also noted that the board was not complying with state law and policy concerning its contractual arrangements. Minn. Stat. Section 16A.15, Ssubd. 3 provides in part that "an obligation may not be incurred against any fund, allotment, or appropriation unless the commissioner has certified a sufficient unencumbered balance in the fund, allotment, or appropriation to meet it." Department of Finance Operating Policy and Procedure 06:04:05 requires agencies to requisition funds for encumbrance before contracts and amendments are signed. Administration Policy and Procedure ADM-188 states that the accounting unit should enter an encumbrance transaction before it sends the contract to the contractor for signing.

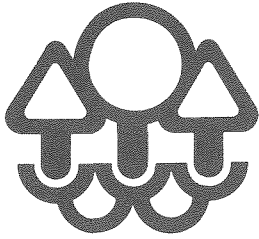
We tested 32 contracts and amendments and found that nine were signed before the funds were requisitioned for encumbrance. In seven contracts, including four amended contracts, contractors began work before funds were encumbered. The board amended three contracts after receiving billings exceeding the original contract amount.

The Department of Administration Contract Management Policy and Procedure Statement ADM-188 identifies procedures which state agencies must follow to ensure that funds are requisitioned and encumbered at the proper time. The procedures were not always followed, even though the board's accounting director issued several memos to staff regarding proper contract procedures.

In addition, according to the Department of Administration, the board did not complete evaluations for 66 contracts. Minn. Stat. Section 16B.17, Subd. 4 provides as follows: "after completion of performance under a consultant or professional and technical services contract, the agency shall evaluate the performance under the contract and the utility of the final product. This evaluation must be delivered to the commissioner, who shall retain all the evaluations for future reference." ADM 188 Section 25 further directs agencies to send contract evaluations to the Contract Management Division of the Department of Administration within 30 days after the completion date of the contract.

CONCLUSIONS

- In general, the internal control structure in existence at the board was inadequate. Specifically, the board should have been more diligent in its accounting for programs financed through bond proceeds. If SWA accounting procedures had been followed and errors corrected as they occurred, the board would have had a clearer picture of the financial status of each of its programs.
- Although the board has been abolished, the board's accounting practices present certain reconciliation problems for the PCA. The PCA should work closely with the Department of Finance to determine the correct balances to be reflected in the hazardous waste siting and solid waste demonstration program accounts. The PCA should also closely monitor the administrative expenditures authorized to be paid out of the capital assistance grant program to ensure compliance with the law.



Minnesota Pollution Control Agency

520 Lafayette Road, Saint Paul, Minnesota 55155

Telephone (612) 296-6300



April 26, 1989

James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
Veterans Service Building
St. Paul, Minnesota 55155

Dear Mr. Nobles:

Re: Financial and Compliance Legislative Audit of the Waste Management Board for the period July 1, 1985, through October 7, 1988

On October 7, 1988, the Waste Management Board was merged with the Pollution Control Agency. Since the merger the Pollution Control Agency has had all the responsibilities and authorities of the former Waste Management Board with the exception of the Hazardous Waste Facility Siting Program, which was assigned to the State Planning Agency.

The Pollution Control Agency has carefully reviewed the findings and comments of the draft financial and compliance Legislative audit of the Waste Management Board for the period July 1, 1985, through October 7, 1988. The Agency acknowledges the findings and conclusions as presented in the draft report. The Agency assumes no responsibility for past Waste Management Board actions; however, the Agency will do what it can to correct or resolve problems presented in the audit.

The Agency's comments are presented in two categories: 1) Actions the Agency is taking to resolve former Board fiscal deficiencies and errors and 2) problems resolved through compliance with Agency policies and procedures.

ACTIONS THE AGENCY IS TAKING TO RESOLVE FISCAL DEFICIENCIES AND ERRORS:

1. Dedicated bond funds used by the Board to pay general operating costs: The Pollution Control Agency is in the final phase of completing a detailed audit of Fiscal Year 1988 Board expenditures for general operations from its bond funds. The Agency is also reviewing Siting Program costs which were mistakenly paid from the General Fund. When the final estimate of the improperly expended funds is determined, the Agency, with the State Planning Agency, will be requesting the Department of Finance to seek a deficiency appropriation from the Legislature to repay the bond accounts for misspent funds.

2. Board overspending of allotted bond funds for administration out of the Solid Waste Demonstration Program: The Agency is working with the Department of Finance to correct the \$126,872 overspending in the Laws of 1980 bond funds. It is anticipated that this issue will be resolved very shortly through an internal bond fund transfer.

James R. Nobles
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April 26, 1989

3. Board failure to follow provisions of the collective bargaining agreements when paying overtime. The Agency will work with the Attorney General regarding his determination as to staff repayment for questionable overtime.

4. Board accounts, especially in the bond funds, indicate many errors as to how funds were encumbered and spent. Based upon information presented in the draft audit report and information gained through the Agency's administration and operation of the former Waste Management Board accounts, a considerable number of accounting errors, especially regarding the encumbering and payment of projects from inappropriate funding sources and inappropriate allotments, with very significant dollar amounts have been noticed. The Agency has corrected many of these errors, and it will continued to do so until the accounts are appropriately reconciled. Where necessary, the Agency is working closely with the Department of Finance to assist in this reconciliation process.

PROBLEMS RESOLVED THROUGH COMPLIANCE WITH AGENCY POLICIES AND PROCEDURES:

The Pollution Control Agency feels that the following Board administrative and fiscal deficiencies noted in the audit have been corrected though the application of the Agency's standard policies and procedures to former Board activities:

- Excessive, inappropriate and undocumented overtime and timesheets
- Lack of documentation regarding special expenses
- Lack of maintenance of statewide accounting reports
- Lack of reconciliation of statewide accounting reports
- Untimely correction of accounting errors
- Delays in depositing receipts
- Contracting for prohibited or inappropriate services
- Excessive and poorly documented instate, outstate, international travel
- Lack of separation of administrative and fiscal functions

Thank you for the opportunity to respond to this audit. The Pollution Control Agency appreciates the professional manner in which the audit was conducted. Although it may not be necessary, the Pollution Control Agency would like the opportunity to contact your staff to help resolve outstanding issues in the Agency's attempt to reconcile the former Waste Management Board's accounting errors and to resolve bond fund deficiencies. If you have any questions regarding this comment letter, please feel free to call me.

Sincerely,



Gerald L. Willet
Commissioner