

MINNESOTA POLLUTION CONTROL AGENCY  
FINANCIAL AUDIT  
FOR THE FOUR YEARS ENDED JUNE 30, 1989

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SEPTEMBER 1990

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Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota

90-69



# MINNESOTA POLLUTION CONTROL AGENCY

## FINANCIAL AUDIT FOR THE FOUR YEARS ENDED JUNE 30, 1989

Public Release Date: September 21, 1990

No. 90-69

### OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Cash receipts, employee payroll, administrative expenditures, employee reimbursement, board members reimbursement, contract expenditures, federal grants cash management, indirect cost plan, permit and application fees, and "Superfund" receipts for waste cleanup.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

### CONCLUSIONS:

We found three areas where the internal control structure needed improvement:

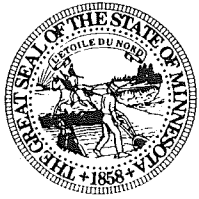
- Internal controls over receipts are inadequate.
- MPCA does not adequately document board activities and review board expense reports.
- Internal controls over use of leased motor pool cars are inadequate.

We reported on one area where the board had not complied with finance-related legal provisions.

- MPCA did not comply with federal and state indirect cost requirements.

Contact the Financial Audit Division for additional information.  
(612) 296-1730





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Senator John E. Brandl, Chairman  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Gerald L. Willet, Commissioner  
Minnesota Pollution Control Agency

**Audit Scope**

We have conducted a financial related audit of the Minnesota Pollution Control Agency for the four years ended June, 30 1989. Our audit included only that portion of the State of Minnesota financial activities attributable to the transactions of the Minnesota Pollution Control Agency as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Minnesota Pollution Control Agency in effect as of June 1989.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transactions of the Minnesota Pollution Control Agency are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Minnesota Pollution Control Agency's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

**Programs Material to Fiscal Year 1990 Statewide Audit**

We also tested the following programs as part of the Fiscal Year 1990 Statewide Audit.

- Combined Sewer Overflow Abatement Program; and
- Wastewater Construction Grants.

No findings or recommendations were developed as a result of this testing.

**Management Responsibilities**

The management of the Minnesota Pollution Control Agency is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and

related costs of internal control structure policies and procedures. The objective of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and
- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

#### Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- cash receipts;
- employee payroll;
- administrative expenditures;
- employee reimbursement;
- board members reimbursement;
- contract expenditures;
- federal grants cash management;
- indirect cost plan;
- permit and application fees; and
- "Superfund" receipts for waste cleanup.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed the control risk.

#### Conclusions

Our study and evaluation disclosed the conditions discussed in findings 1-3, involving the internal control structure of the Minnesota Pollution Control Agency. We consider these conditions to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of

the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize and report financial data.

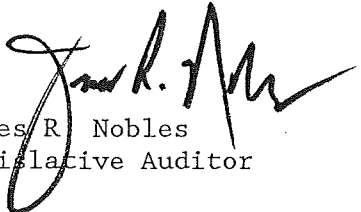
A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to relatively low level the risk that errors and irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe that the reportable condition described in finding 1 is a material weakness.

We also noted other matters involving the internal control structure and its operation that we reported to management of the Minnesota Pollution Control Agency at the exit conference held on June 13, 1990.

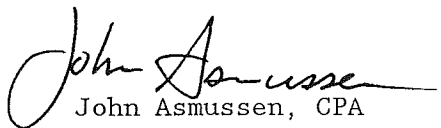
The results of our tests indicate that, except for the issue discussed in finding 4, with respect to the items tested, the Minnesota Pollution Control Agency complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Minnesota Pollution Control Agency had not complied, in all respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and management of the Minnesota Pollution Control Agency. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 21, 1990.

We would like to thank the Minnesota Pollution Control Agency staff for their cooperation during this audit.



James R. Nobles  
Legislative Auditor



John Asmussen, CPA  
Deputy Legislative Auditor

END OF FIELDWORK: June 1, 1990

REPORT SIGNED ON: September 18, 1990





# MINNESOTA POLLUTION CONTROL AGENCY

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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
Warren Bartz, CPA	Audit Manager
Jack Hirschfeld, CPA	Auditor-In-Charge
Joan Haskin, CPA	Staff Auditor
John Wicklund, CPA	Staff Auditor

## EXIT CONFERENCE

An exit conference was held with the following staff from the Minnesota Pollution Control Agency on June 13, 1990:

Gerald L. Willet	Commissioner
Barbara L. Sims	Deputy Commissioner
Keith Ness	Director of Administrative Services
John Retzer	Accounting Director
Mary Daly	Accounting Officer



# MINNESOTA POLLUTION CONTROL AGENCY

## INTRODUCTION

The Legislature created the Minnesota Pollution Control Agency (MPCA) in 1967. The mission of the MPCA is to serve the public in the protection and improvement of Minnesota's air, water, and land resources. The agency assesses the states' environmental status, regulates the quality of the resources, assists local government, industry, and individuals in meeting their environmental responsibilities; and implements strategies that will protect and enhance public health and the state's environment. Gerald L. Willet was appointed Commissioner of the Minnesota Pollution Control Agency on November 15, 1987.

The Legislature also established a board of nine citizens appointed by the Governor to make policy decisions for the MPCA. Board members serve four-year, staggered terms, and meet on the fourth Tuesday of each month. The agency is divided into one general support division, a regional support office, and four operational divisions: Water Quality; Air Quality; Ground Water and Solid Waste; and Hazardous Waste. Regional offices are located in Brainerd, Detroit Lakes, Duluth, Marshall, and Rochester.

On October 7, 1988, the Governor signed an executive order transferring most functions of the Waste Management Board to the MPCA. The Legislature in the 1989 Session recreated the Office of Waste Management as an agency in the executive branch. The responsibilities were transferred from MPCA to the Office of Waste Management on July 1, 1989.

Operations for the MPCA are financed by state appropriations and federal grants. In fiscal year 1989, state appropriations were \$19.8 million and federal grants totaled \$13.4 million. MPCA collects receipts from the sale of licenses, permits, fees, and from the assessment of penalties. Expenditures for fiscal years 1986-1989 are shown below:

	<u>Year Ended June 30</u>			
<u>Expenditures</u>	<u>1989</u>	<u>1988</u>	<u>1987</u>	<u>1986</u>
Personal Services	\$19,333,395	\$15,668,249	\$14,806,555	\$13,135,312
Administrative				
Disbursements	10,259,440	7,901,354	7,637,088	7,133,618
Supplies & Equipment	1,247,806	1,045,262	319,330	545,524
Grants and Aids	2,088,496	2,894,164	1,165,196	1,403,620
Other Expenditures	<u>318,519</u>	<u>208,575</u>	<u>143,108</u>	<u>99,961</u>
Total Disbursements	<u>\$33,247,762</u>	<u>\$27,717,604</u>	<u>\$24,071,277</u>	<u>\$22,318,035</u>

Source: Department of Finance Managers Financial Reports as of September 2, 1989; September 3, 1988; September 5, 1987; and September 6, 1986.

# MINNESOTA POLLUTION CONTROL AGENCY

## II. CURRENT FINDINGS AND RECOMMENDATIONS

### 1. Internal controls over receipts are inadequate.

MPCA does not adequately separate the accounting functions for the recording and processing of cash receipts. A senior account clerk in the Fiscal Services Division is responsible for all receipts accounting functions. These functions include restrictively endorsing all checks, preparing the deposit slips, and posting payments to the accounts receivable system. She also reconciles the deposits to statewide accounting (SWA) reports. Fiscal year 1989 receipts from fees, permits, and program applications totaled \$2.8 million. The inadequate separation of duties increases the risk that errors or irregularities could occur and not be detected.

MPCA also does not verify the accuracy of account clerks' posting receipts to the accounts receivable system. MPCA divisions issue invoices for various program applications, permits, and fees. Staff in each division also record the amounts due on the MPCA accounts receivable system. Because MPCA tries to deposit checks promptly, the fiscal services account clerk photocopies the checks or remittance advice. The account clerk uses the photocopies to later post receipts onto the accounts receivable system. The account clerk then discards all photocopies except those for the Hazardous Waste Division.

The account clerk reconciles the total receipts to the amount posted to the accounts receivable system. However, there is no verification of amounts posted to the individual accounts. Without this verification, there is no assurance that the amounts posted to the individual accounts are correct. As previously noted, someone other than the account clerk should be reconciling receipts.

### RECOMMENDATIONS

- The Minnesota Pollution Control Agency should separate the accounting functions for the recording and processing of cash receipts. Separation of the accounting function could be completed by:
  - reassigning the check endorsement function to the mailroom clerk; and
  - assigning the deposit and recordkeeping functions to different employees, and having someone independent of the receipt process reconcile agency receipt records to SWA reports. The reconciliation should be extended to verify the accuracy of amounts posted to individual accounts.
- MPCA should verify the accuracy of the postings to the individual accounts on the accounts receivable system.

MINNESOTA POLLUTION CONTROL AGENCY

2. MPCA does not adequately document board activities and review board expense reports.

The Minnesota Pollution Control Board does not take attendance at board committee meetings. The board has monthly board meetings with committee meetings the day before the full board meeting. The board records the minutes of the committee meetings on tape. However, these minutes do not include a record of board members in attendance. Board members receive per diem payments for attending committee meetings. They record attendance and the per diem amount on an expense report, but MPCA cannot determine whether a board member should receive the per diem for committee meetings without some evidence of attendance. Under the present system, board members could receive overpayments of their per diem allowance.

The board also does not document approval for board members attending activities other than the monthly board meetings. Board policy states that members may be compensated for attending meetings, seminars, and tours. The policy allows for compensation provided there has been chair or vice-chair approval in advance and funds are available. The board does not have procedures to document approval of attendance at these activities. MPCA staff told us that in some instances the chair may have provided verbal authorization to board members. However, authorization by the board does not appear in the board minutes, and no other documentation exists to support the approval. Board members record attendance at these activities and the per diem on an expense report. Without procedures to document the board approval, board members may receive pay for unauthorized activities.

MPCA does not adequately review board members' expense reports before authorizing reimbursement. We noted some minor instances where overpayments occurred during fiscal years 1986 through 1989.

- MPCA reimbursed two board members twice for the same expense. In one instance, a board member claimed both mileage and airplane tickets for attending the same meeting. He was overpaid by \$64. In the other instance, MPCA reimbursed a board member twice for the same meal.
- One board member received an overpayment of \$9 due to a calculation error by the accounting unit.
- Three board members received reimbursement for evening meals on the day they returned home from a meeting. MPCA is to reimburse board members only when the board member is away from home overnight or does not return home until after 7:00 p.m. No entry on the expense report shows what time they returned home.

The board members have repaid MPCA for these overpayments.

MPCA is to reimburse board members for travel costs only to the extent authorized by state travel policies. MPCA needs to more thoroughly review expense reports to prevent overpayments due to mathematical errors and ineligible or duplicate expenses.

MINNESOTA POLLUTION CONTROL AGENCY

RECOMMENDATIONS:

- Minutes of committee meetings should include attendance records.
- The board should develop procedures to document approval for board members to attend conferences and other meetings.
- MPCA should more closely review board members expense reports to prevent inaccurate reimbursement.

3. Internal controls over use of leased motor pool cars are inadequate.

MPCA division supervisors and regional directors do not review the daily travel logs for cars leased from central motor pool. Department staff use the leased central motor pool cars to visit work sites and complete inspections at various facilities. When returning, the driver records the mileage and final odometer reading. Motor pool cars also are assigned to the five regional offices. Central Motor Pool regulations require a supervisor's signature on the daily travel log. The signature certifies that a supervisor reviewed the travel log and the recorded mileage occurred for official business only.

MPCA division supervisors do not review the travel log to insure that staff used the car for only legitimate departmental business. Central Motor Pool bills the agency for mileage reported on the travel logs. MPCA leased 34 cars at a cost of \$128,000 during fiscal year 1989. Failure of the supervisors to review and certify the mileage on the log increases the risk that Central Motor Pool could bill the agency for unauthorized mileage.

RECOMMENDATION

- MPCA division supervisors and regional directors should review and certify the mileage on the daily travel logs before they are sent to Central Motor Pool.

4. MPCA did not comply with federal and state indirect cost requirements.

MPCA did not submit the fiscal year 1989 indirect cost plan to its federal cognizant agency for approval. MPCA also did not submit the fiscal year 1990 indirect cost plan to the federal cognizant agency on a timely basis. MPCA follows the indirect cost procedures included in Circular 74-4 issued by the U.S. Department of Health, Education and Welfare (now the U.S. Department of Health and Human Services). This circular requires that each state department wishing to claim indirect costs on federal

## MINNESOTA POLLUTION CONTROL AGENCY

grants prepare a cost proposal. The circular also requires a separate proposal for each fiscal year. Department of Finance procedures require state agencies which receive federal funds to submit indirect cost plans to Finance for review and approval. Once Finance has approved the plan, the state agency is to submit the plan to the cognizant federal agency for approval.

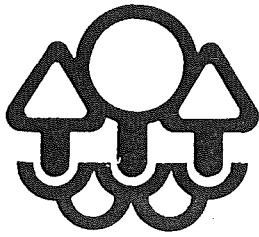
MPCA did not submit the fiscal year 1989 indirect cost plan to either Finance or the federal cognizant agency for approval. MPCA did not obtain Finance's approval of the fiscal year 1990 indirect cost plan and submit it to the federal cognizant agency until April 24, 1990. MPCA staff attributed the delay in submitting the plans for approval to instructions received from their federal grantor agency. The federal grantor agency advised MPCA that it only needed to submit a plan once every three years. These instructions did not comply with the requirements in Circular 74-4. To correct the problem, Finance has advised MPCA to first file their 1990 indirect cost plan. MPCA is then to submit its 1989 indirect cost plan for approval. Meanwhile, MPCA drew down about \$2 million in federal grant money for indirect costs for 1989, and continues to draw down money for fiscal year 1990. Approval of the indirect cost plan by the federal cognizant agency authorizes a rate for charging indirect costs against all federal grants. Failure to receive approval for an indirect cost plan may result in disallowance of indirect costs claims against grant awards.

### RECOMMENDATION

- MPCA should submit annually for approval an indirect cost allocation plan to the state Department of Finance and the federal cognizant agency.







# Minnesota Pollution Control Agency

520 Lafayette Road, Saint Paul, Minnesota 55155

Telephone (612) 296-6300



September 14, 1990

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

RE: Response to Agency Four Year Financial Audit for the Period Ending  
June 30, 1989

Dear Mr. Nobles:

The Pollution Control Agency has carefully reviewed your draft audit report on the Agency's fiscal operations for Fiscal Years 1986 through 1989. I feel that the audit indicates that the Agency is managing its fiscal resources in a manner which is generally acceptable and which meets the tests of public trust. I was surprised at the tone of the report as compared to the discussions I had with your staff at the exit conference relative to the issues that the Agency should address. Your recommendations regarding procedures which will improve the Agency's fiscal management and control and the measures the Agency is taking to implement these recommendations are discussed below.

## FINDING 1 - Internal controls over receipts are inadequate

- RECOMMENDATIONS - MPCA should separate the accounting functions for the recording and processing of cash receipts.
- MPCA should verify the accuracy of the postings to the individual accounts on the accounts receivable system.

MPCA RESPONSE - The MPCA will revise its depositing of receipts process as follows: a) A clerk-typist position in the Fiscal Services Office will open, endorse, photocopy and forward all checks to the account clerk for processing through the State Treasurer and the Statewide Accounting System; b) The account clerk will post appropriate checks to the accounts receivable system. After reconciliation of deposits to the accounts receivable postings, copies of the deposit slips and the checks will be forwarded to each division for verification of accuracy to the individual accounts. The divisions will also be required to verify the accuracy of those deposits which they submitted that are not posted to the accounts receivable system; and c) At the end of the month, the clerk-typist will reconcile all deposit slips with the Statewide Accounting system receipt reports and notify the accounting director of any discrepancies. This procedure will be implemented on October 1, 1990.

It should be noted that this audit revealed no erroneous deposit transactions or postings to the accounts receivable system. This has also been the case in previous audits. It is, however, our concern that our

operations are in compliance with generally accepted government auditing standards, and therefore, the Agency will implement the above procedure.

FINDING 2 - Board activities are not adequately documented and board expenses are not adequately reviewed.

RECOMMENDATIONS - Minutes of committee meetings should include attendance records.  
- The board should develop procedures to document approval for board members to attend conferences and other meetings.  
- MPCA should more closely review board members' expense reports to prevent inaccurate reimbursement.

MPCA RESPONSE - The MPCA has implemented the three recommendations regarding the board. Attendance records of board committee members are being maintained by the board secretary. The board secretary compares these records with the expense reimbursement requests from board members. On August 28, 1990 the board formally adopted a policy which defines appropriate board expenses and establishes a mechanism for the board chairman to approve board member attendance at non-board meeting functions. These approvals are attached to the expense reimbursement requests. Board member reimbursements are being carefully reviewed to ensure that they are appropriate and accurate. The \$73 of erroneous payments to board members have been repaid to the state.

FINDING 3 - Internal controls over use of leased motor pool cars are inadequate.

RECOMMENDATIONS - MPCA division supervisors and regional directors should review and certify the mileage on the daily travel logs before they are sent to Central Motor Pool.

MPCA RESPONSE - The MPCA leases 32 state owned vehicles. Typically these vehicles are used by different staff each working day. Often, vehicles are used by multiple staff on the same day. Central Motor Pool requires that all daily travel logs for a given month be submitted to Central Motor Pool on or before the sixth of the following month.

The MPCA is developing a daily travel log which will send to a motor pool user's supervisor or regional director a copy of the trip log entry upon completion of the trip. The supervisor will be required to review the trip data and approve the log entry. The approved copy of the log entry will be returned to the MPCA's Administrative Services Office and placed with a file copy of the daily travel log. Because of the large volume of users of motor pool vehicles, it is infeasible for one person to review and approve the entire travel log. The MPCA expects that this system, in which the supervisor approves a copy of the trip log entry, will allow for verification of a trip while providing for timely submittal of the master log to Central Motor Pool. This will be implemented on October 1, 1990.

James R. Nobles  
September 14, 1990  
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FINDING 4 - MPCA did not comply with federal and state indirect cost requirements.

RECOMMENDATIONS - MPCA should submit annually for approval an indirect cost allocation plan to the State Department of Finance and the federal cognizant agency.

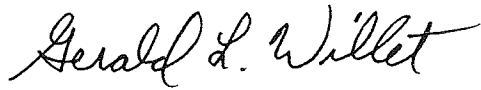
MPCA RESPONSE - The MPCA was initially instructed by the U.S. Environmental Protection Agency in Washington that it should begin to utilize a three year cycle in applying for its indirect cost rates. This procedure required the Agency to take the odd numbered year and the even numbered year and arrive at an average to use for each of these three year cycles. We did not question their credibility in implementing this new procedure. During the implementation of this procedure the Agency did receive approval from the Department of Finance for submission of its plan. The Agency strongly contends that it acted in good faith in implementing this procedure and denies any implication of negligence in fulfilling its indirect cost requirements. It should be recognized that U.S. EPA Region V in Chicago was completely informed on the procedure. They accepted our financial status reports under this procedure, and thereby they were fully informed, on a timely basis, of the amounts which were drawn down for indirect costs.

Since the concerns on this procedure were raised, the Agency coordinated communications between the U.S. Environmental Protection Agency and the Department of Finance. It has been agreed by all parties that the Agency should return to the submission of an annual indirect cost plan. The Agency has also submitted to, and received approval from, the Department of Finance and the U.S. Environmental Protection Agency adjusted plans for the years in question. The Agency maintains a relatively stable indirect cost rate from year to year and the effect of this procedure had little, if any, impact on the programs involved.

The Agency challenges the suggestion that it did not receive approval from the Department of Finance before submission of its 1990 indirect cost plan to the U.S. Environmental Protection Agency. A copy of the approval from Finance dated April 23, 1990 is attached.

Thank you for the opportunity to formally respond to the fiscal audit of the Pollution Control Agency. If you have any questions, please call me or Keith H. Ness, Director, Environmental Support Division, at 296-7224.

Sincerely,



Gerald L. Willet  
Commissioner

DEPARTMENT : of Finance

STATE OF MINNESOTA

## Office Memorandum

DATE : April 23, 1990

TO : Mary Daly  
Pollution Control AgencyFROM : Bart Nelson *Bart Nelson*  
Budget Operations and Support

PHONE : 6-5901

SUBJECT : Revised F.Y. 1990 Indirect Cost Proposal

Your revised indirect cost proposal for F.Y. 1990 is approved for submittal to your cognizant federal agency. Please send me a copy of the approval when you receive it.

BOBN629t