

# **Pollution Control Agency**

## **Financial Audit**

**For the Three Years Ended June 30, 1995**

---

**August 1996**

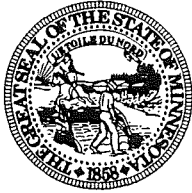
*This document can be made available in  
alternative formats, such as large print,  
Braille, or audio tape, by calling 296-1235.*

---

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

**96-34**





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

CENTENNIAL BUILDING, 658 CEDAR STREET • ST. PAUL, MN 55155 • 612/296-4708 • TDD RELAY 612/297-5353

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann H. Rest, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

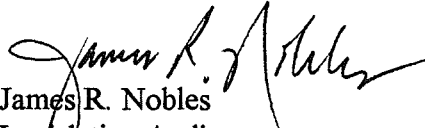
Mr. Peder A. Larson, Acting Commissioner  
Pollution Control Agency

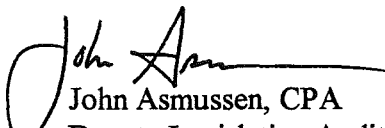
We have audited the Pollution Control Agency for the period from July 1, 1992, through June 30, 1995, as further explained in Chapter 1. Our audit scope included a review of agency resources, including appropriations, fee receipts, and federal grants, and the use of funds including payroll, federal grant allocation, contractual services, and administrative expenditures. This audit did not include agency activities funded with bond proceeds; we examine those activities as part of our annual Statewide Audit. The following summary highlights the audit objectives and conclusions. We discuss these areas more fully in the individual chapters of this report.

We have conducted our audit in accordance with generally accepted government auditing standards. These standards require that we obtain an understanding of management controls relevant to the audit. The standards also require we design the audit to provide reasonable assurance the Pollution Control Agency complied with provisions of laws, regulations, and contracts that are significant to the audit. The management of the Pollution Control Agency is responsible for establishing and maintaining the internal control structure and 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 Pollution Control Agency. This restriction is not intended to limit the distribution of this report, which was released as a public document on August 30, 1996.

We thank the 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 28, 1996

Report Signed On: August 26, 1996



# SUMMARY

State of Minnesota

Office of the Legislative Auditor

Centennial Office Building • St. Paul, MN 55155

612/296-4708

## **Pollution Control Agency**

### **Financial Audit**

**For the Three Years Ended June 30, 1995**

Public Release Date: August 30, 1996

No. 96-34

### **Agency Background**

The mission of the Pollution Control Agency (PCA) is to serve the public in the protection and improvement of the state's air, water, and land resources. The agency assesses the state's environmental status, provides regulatory approvals, acts on enforcement and complaints resolution, and implements strategies that will protect and enhance public health and the state's environment.

PCA consists of both a policy board and staff agency. The Legislature established a board of nine citizens appointed by the Governor to make policy decisions for the PCA. The agency was under the direction of Commissioner Charles Williams during the audit period and until his resignation effective in July 1996. The agency is organized 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. The PCA has approximately 750 employees.

### **Audit Areas and Conclusions**

Our audit scope was for the period from July 1, 1992 through June 30, 1995. We reviewed sources of funds including appropriations, federal grants, and fee receipts. We also reviewed the uses of funds including payroll, contractual services, grants and other administrative expenditures during the audit period.

Generally, we found that the agency conducted its fiscal affairs in a reasonable and prudent manner. The agency properly accounted for its resources. The agency monitored the use of funds throughout the audit period. The agency accurately and timely recorded most financial transactions related to its operations. We found, however, that the agency overreimbursed some employees for travel expenses, but the individual overpayments were relatively small.

**Contact the Financial Audit Division for additional information.**

**296-1235**



## **Pollution Control Agency**

---

### **Table of Contents**

---

	<b>Page</b>
Chapter 1. Introduction	1
Chapter 2. Sources of Funds	3
Chapter 3. Payroll	6
Chapter 4. Other Uses of Funds	8
Professional and Technical Services Contracts	8
Other Administrative Expenditures	8
Employee Travel Expense Requirements	9
Grants and Purchased Services	10
Agency Response	11

### **Audit Participation**

The following members of the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Warren Bartz, CPA	Auditor Manager
Michael Hassing	Auditor-in-Charge
Susan O'Connell	Auditor
Dale Ogren, CPA	Auditor
Chad Leiker	Student Worker
Trent Usitalo	Student Worker

### **Exit Conference**

We discussed the results of the audit with the following Pollution Control Agency staff at the exit conference held on July 29, 1996:

Elaine Johnson	Administrative Services Division Manager
Peggy Adelman	Fiscal Services Manager
Kathy Sather	Accounting Supervisor
Jan Steppe	Accounting Supervisor





---

## Chapter 1. Introduction

---

The Pollution Control Agency (PCA) was established in 1967 to be Minnesota's primary regulator of air and water pollution. Since that time, the Legislature has also given PCA the authority to regulate solid and hazardous waste.

The mission of the PCA is to serve the public in the protection and improvement of the state's air, water, and land resources. The agency assesses the state's environmental status, provides regulatory approvals, acts on enforcement and complaints resolution, and implements strategies that will protect and enhance public health and the state's environment.

PCA consists of both a policy board and staff agency. The Legislature established the Minnesota Pollution Control Agency Citizens Board to make policy decisions for the PCA. The board consists of nine members appointed by the Governor. The agency was under the direction of Commissioner Charles Williams until July 5, 1996. Peder Larson was named acting commissioner effective July 8, 1996. The agency is organized 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. The PCA has approximately 750 employees and operates primarily under Minn. Stat. Chapter 116.

Operations of the PCA are financed by state appropriations, federal grants, and receipts from the sale of licenses, permits, fees, and the assessment of penalties. Table 1-1 summarizes the significant financial activity of the PCA for fiscal years 1993, 1994, and 1995, excluding agency activities funded with bond proceeds.

# Pollution Control Agency

**Table 1-1**  
**Summary of Financial Activity (1)**  
**Fiscal Years 1993, 1994, and 1995**

	<u>FY 1993</u>	<u>FY 1994</u>	<u>FY 1995</u>
Sources of Funds:			
Appropriations	<u>\$30,785,500</u>	<u>\$40,754,076</u>	<u>\$39,616,651</u>
Revenue:			
Environmental Fund Revenue (2)	\$15,071,338	\$14,820,664	\$16,762,542
Less Nondedicated Revenue	<u>10,195,581</u>	<u>11,521,155</u>	<u>12,814,915</u>
Env. Fund Dedicated Revenue	\$ 4,875,757	\$ 3,299,509	\$ 3,947,627
Federal Grants	14,899,257	13,671,018	13,791,114
Other Revenue	<u>5,224,389</u>	<u>6,942,743</u>	<u>7,389,228</u>
Total Dedicated Revenue	<u>\$24,999,403</u>	<u>\$23,913,270</u>	<u>\$25,127,969</u>
Transfers from Other Departments	<u>\$14,894,284</u>	<u>\$15,226,770</u>	<u>\$12,770,774</u>
Total Sources	<u>\$70,679,187</u>	<u>\$79,894,116</u>	<u>\$77,515,394</u>
Expenditures:			
Payroll	\$30,817,129	\$33,027,347	\$35,635,997
Contractual Services	17,667,767	19,076,682	18,960,066
Other Administrative Expenditures	<u>16,698,243</u>	<u>12,285,164</u>	<u>13,728,819</u>
Total Expenditures	<u>\$65,183,139</u>	<u>\$64,389,193</u>	<u>\$68,324,882</u>

(1) Excluded agency activities funded with bond proceeds.

(2) See Table 2-1 for receipts by division.

Source: OLA calculations from data recorded in the Statewide Accounting System for the period July 1, 1992, to June 30, 1995.

---

## Chapter 2. Sources of Funds

---

### *Chapter Conclusions*

*The Pollution Control Agency properly accounted for its resources. The agency complied with specific provisions over appropriations and federal grants. The agency had appropriate documentation to support accounting transactions for federal grant applications, awards, and indirect cost recovery rate computations. The agency recorded and deposited fee receipts accurately and timely. The agency calculated charges according to applicable legal provisions and collected fees appropriately.*

---

The PCA receives funding from a variety of sources. The primary sources include state appropriations, federal grants, and fees collected from the issuance of permits, fines, and stipulations. The PCA reported total revenues of \$108,572,293 on the statewide accounting system during the period July 1, 1992 through June 30, 1995. Of this amount, \$42,361,389 related to federal grants and \$46,654,542 related to receipts recorded in the Environmental Fund.

As discussed in Chapter 1, the PCA is organized into four operating divisions: Water Quality, Air Quality, Ground Water/Solid Waste, and Hazardous Waste. In addition, the Administrative Services Division is responsible for accounting functions including collection, deposit, recording and reporting for the entire agency.

### **Appropriations**

The PCA received direct appropriations from the Legislature totaling \$30,013,000, \$38,888,000 and \$37,140,000 during fiscal years 1993, 1994, and 1995, respectively. In addition, the agency received other appropriations recommended by the Legislative Commission on Minnesota Resources (LCMR) and from miscellaneous appropriation bills. The PCA also received appropriations from bond proceeds for capital projects, which were audited during the Statewide Audits for the fiscal years 1993, 1994, and 1995.

Our analysis of appropriations focused on whether the PCA had a procedure to monitor and track appropriations. We conducted interviews and performed analytical procedures to gain an understanding of the agency's process of recording and monitoring appropriations.

We found that the agency is properly recording and monitoring its resources. The budget process is a complex calculation of sources and uses of funds. The agency monitors the use of funds at a variety of administrative and operational levels.

# Pollution Control Agency

## Fee Receipts

Each division is allotted operating funds based on budgeted fee revenue. The most significant source of fee revenue is from the Environmental Fund. Appropriations remaining after the biennium are canceled and returned to the Environmental Fund. Table 2-1 summarizes total Environmental Fund receipts by division over the three year audit period, as shown in Table 1-1.

**Table 2-1**  
**Summary of Pollution Control Agency Environmental Fund Receipts**  
**Fiscal Years Ended June 30, 1993, 1994, 1995**

	<u>1993</u>	<u>1994</u>	<u>1995</u>
Water Quality Division	\$2,356,963	\$2,392,355	\$2,493,774
Air Quality Division	5,509,764	6,548,231	6,839,845
Solid Waste Division	694,093	962,418	1,165,693
Hazardous Waste Division	3,888,099	1,834,319	2,807,587
Administrative Services Division	<u>2,622,418</u>	<u>3,083,340</u>	<u>3,455,642</u>
Total	<u>\$15,071,337</u>	<u>\$14,820,663</u>	<u>\$16,762,541</u>

Note 1: Includes receipts spent by more than one division.

Source: Fund 33 revenue transactions recorded in the Statewide Accounting System from July 1, 1992, to June 30, 1995.

Each division is responsible for the determination and billing of its respective permit fees. Each division also is responsible for maintaining and monitoring accounts receivable. The Water Quality Division derives fee receipts from water quality permits by either flat rate (construction storm water and general storm permits) or by variable rate based on the design flow of the facility (sewage and industrial permits.) The Air Quality Division derives its fee receipts from air quality permits by either a flat rate for indirect source permits or an amount based on the level of pollutants which the facility discharges into the air.

The Hazardous Waste Division is more complex because its licenses and permits are assessed by two separate sections within the division. The program development section issues licenses to businesses which generate hazardous materials. The PCA central office provides licensure for nonmetropolitan areas. However, those businesses within the seven county metro area are licensed through their respective counties. The regulatory compliance section issues permits to those facilities treating, storing, and/or disposing of hazardous materials.

The Solid Waste Division differs from the above divisions because it does not collect fees for permits. Rather, the Department of Revenue collects fees from those persons hauling trash in the state as part of sales tax collections. The division does collect other fees, such as fines, restitution or project site training.

The Administrative Services Division is responsible for collecting and depositing all fee receipts generated by each operating division, except for solid waste permits, as described above.

We focused our audit approach for fee receipts on the following questions:

- Are amounts paid according to the established fee schedule?

## **Pollution Control Agency**

- Are receipts deposited promptly and recorded accurately?
- Are fees sufficient to provide the intended resources for operating these programs?
- Is the agency collecting the fees due to the agency?

Our audit methodology included inquiries, analytical procedures, and testing. We downloaded information from each of the operating division's permit/invoice systems as well as the statewide accounting system. We compared the amount of fees collected and deposited with those invoiced from the operating divisions.

We found that the agency is depositing and recording fee collections timely and accurately. The fees are for the appropriate amounts based on applicable legal provisions.

## **Federal Grants**

The Pollution Control Agency (PCA) received \$42,361,389.86 in federal grant revenues during fiscal years 1993, 1994, and 1995. These project revenues came into the four operating divisions of the agency. The Water Quality Division received the largest portion of the federal grant revenues.

Each year division managers apply for federal funds for new and on-going projects the PCA manages directly or passes through to other agencies, cities, or projects. Each division has a program administrator who oversees grant spending and reporting. These administrators work closely with the fiscal services staff who prepare the quarterly and final federal spending reports (FSRs) that are sent to the Environmental Protection Agency (EPA).

Our review of federal grants focused primarily on the following objectives:

- Does PCA have sufficient accounting records to track the financial activity of individual program grants?
- Does PCA have a system for allocating the federal funds to the appropriate divisions within the agency?

Our audit methodology included interviews with both fiscal and operations staff, analytical procedures, and testing the monitoring and allocating of federal grant resources and uses. We focused our testing of federal grants on the internal system of controls developed by the PCA to record, track and report on federal grants. These federal programs were not major programs, but were covered as part of the Statewide/Single Audits for fiscal years 1993, 1994, and 1995. Our work on these nonmajor federal grants was less than that required for major Single Audit programs.

We found the controls and systems used by fiscal services were adequate and consistently applied. We also reviewed the process the agency uses in negotiating the indirect cost recovery (ICR) rate applied to each grant. We observed that complete documentation was available relating to the rate determination. The documentation of the rate computation is also provided to the EPA. The EPA has the final approval for the rate used.

---

## Chapter 3. Payroll

---

### *Chapter Conclusions*

*Generally, we found that the agency paid staff the proper amounts according to applicable bargaining unit agreements. The agency administered payroll in compliance with applicable policies of the Department of Employee Relations.*

---

Payroll is the largest expenditure category for the agency. The PCA incurred total payroll expenses of \$99,480,472 during the audit period. The PCA employs over 750 persons throughout the state. Table 3-1 shows the total payroll costs and full-time equivalent (FTE) employees for PCA during each of the three fiscal years in the audit scope.

---

**Table 3-1**  
**Total Payroll and Employees**  
**Fiscal Years 1993, 1994, 1995**

	<u>Payroll</u>	<u>FTE</u>
Fiscal Year 1993	\$30,817,129	731
Fiscal Year 1994	33,027,347	759
Fiscal Year 1995	<u>35,635,997</u>	777
Totals	<u>\$ 99,480,472</u>	

Source: Payroll transactions recorded in the Statewide Accounting System from July 1, 1992 to June 30, 1995 and PCA Personnel Office records.

---

The increase in payroll expenditures is attributable to inflationary increase and to the larger number of full-time equivalent (FTE) individuals at the agency over the audit period. The majority of the payroll costs - \$82,100,700 or 82.5 percent - relate to salary paid to employees. The remaining amounts represent severance pay, overtime pay, relocation expenses, and other miscellaneous expenditures.

Our review of payroll focused on the following questions:

- Did the agency pay staff at the proper amounts according to applicable bargaining unit agreements?
- Was time worked and leave requested adequately documented and approved?
- Are payroll payments properly recorded and charged to correct funding sources?
- Are board members compensated according to board policy and statute?

## **Pollution Control Agency**

The audit methodology used to answer these questions and to evaluate the audit objectives over payroll included inquiries, analytical reviews, and sampling. We interviewed individuals within the fiscal services and personnel divisions to gain an understanding and documentation of the payroll process. We also tested a sample of payroll transactions, including board member per diem, to ensure the agency properly authorized, supported and recorded payroll transactions.

We concluded that the PCA processed payroll in accordance with state policies and procedures as well as the appropriate bargain unit agreements.

---

## Chapter 4. Other Uses of Funds

---

### *Chapter Conclusions*

*The Pollution Control Agency appropriately processed and adequately managed contractual services and federal grants during the audit period. Generally, the agency properly processed payments to state vendors. However, we found that the agency needs to improve controls over the processing of travel expenditures for its employees.*

---

### Professional and Technical Services Contracts

The largest category of expenditures at PCA, other than payroll, is for professional and technical contractual services. PCA spent \$17,667,767, \$19,076,682, and \$18,960,066 for contractual services during fiscal years 1993, 1994, and 1995, respectively. PCA contracts primarily for specialized environmental engineers and testing services to monitor and enforce pollution regulations and to oversee emergency clean-up procedures.

We focused our review of contractual service payments on the following objectives:

- Did the agency follow contract policies and procedures, including all applicable legal requirements?
- Did the agency properly administer its contracts?

During our audit, we gained an understanding of the professional and technical contract process through interviews with key personnel. We analyzed contractual payments made throughout the audit period. We performed testing to ensure that all payments were accurate and supported by properly executed contracts, as well as properly recorded on the statewide accounting system.

We found that PCA appropriately processed and adequately managed its payments for professional and technical service contracts. The PCA has a process to monitor the development and execution of contracts. We also found that PCA tracks payments by individual vendor and monitors compliance with established terms and conditions of the established contracts.

### Other Administrative Expenditures

The PCA uses funds in many other ways to pay for the daily operational expenses of the agency. These include administrative costs for space and utilities, communications, employee travel, supplies and equipment. The PCA spent over \$42 million during the audit period for operating expenditures other than payroll or professional/technical contracts.



## **Pollution Control Agency**

In order to audit administrative expenditures, we concentrated on employee travel reimbursements, grants, and purchased service. We made inquiries, performed analytical reviews, and conducted sampling. We interviewed staff to gain an understanding of the disbursement process. We sampled employee travel expense reimbursements, flow-through grant payments to counties, and payments for services provided by the agency's lessor.

### **Employee Travel Expense Reimbursements**

During the audit period, employees of PCA were engaged in various activities that necessitated travel. Employees were eligible to be reimbursed for expenses incurred while in travel status according to provisions established within the respective bargaining unit agreements. The expenditures included meals, lodging, mileage, and other miscellaneous expenditures.

We focused our review of employee travel expense reimbursements on the following objectives:

- Did the agency properly approve and adequately document expenditures?
- Were expenditures reasonable and in compliance with applicable bargaining agreement limits and state travel policies?

We found that the PCA complied with applicable bargaining agreement provisions and state travel policies in administering employee travel expense reimbursements. However, as discussed in Finding 1, we found several instances in which the agency did not sufficiently verify claims for accuracy or adequate documentation to ensure the proper payment.

#### **1. The Pollution Control Agency inaccurately reimbursed some employee travel expenses.**

We found several instances where the agency overreimbursed employees for travel expenses based on the documentation provided. Although the amounts of the individual mileage overpayments were relatively small, we found errors on 6 of 30 transactions tested. The incorrect amounts were the result of mileage differences between established destinations and that claimed by the employees. We also found in 6 of the 30 transactions tested that required documentation or affidavits to support certain expenses claimed for reimbursement was not provided. For example, a reimbursement for a conference registration fee of \$250 was not documented.

The agency needs to improve its process to check the validity and accuracy of expense reimbursements prior to payment and to ensure compliance with established policies and procedures, including bargaining unit agreements. The agency disbursed over \$675,000 annually during the audit period as reimbursements to employees for travel expenses. The agency must ensure that required documentation is on file before payment is made and verify that claimed mileage agrees with official state mileage tables.

## Pollution Control Agency

### *Recommendations*

- *The agency should review the 12 questioned employee expense reimbursements, obtain the necessary supporting documentation and mileage verifications, and make any adjustments, including repayments, as needed.*
- *The agency should improve controls over the review and approval of employee expense reimbursements by requiring complete documentation and performing mileage verifications prior to making payments.*

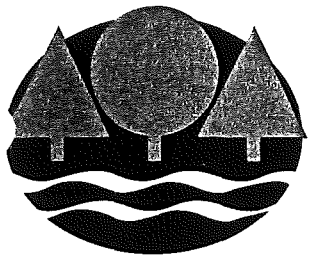
### **Grants and Purchased Services**

Finally, we reviewed two other expenditure types - grants and purchased services. The PCA disbursed a total of \$7,085,059 as flow-through grants to various counties and other local governmental units or environmental organizations during the period July 1, 1992, through June 30, 1995. During the same period, the agency purchased services of \$113,289 from its lessor for various items such as maintenance projects and visitor parking spaces.

We focused our review of these expenditures on the following objective:

- Were the expenditures reasonable, documented, properly authorized, and properly recorded?

We found that for both types of expenditures, the payments were reasonable, documented, authorized, and recorded properly.



# Minnesota Pollution Control Agency

---

August 13, 1996

Mr. James R. Nobles  
Legislative Auditor  
Centennial Building  
658 Cedar Street  
St. Paul, Minnesota 55155

Dear Mr. Nobles:

I would like to thank you and your staff for the work just completed on an audit of the Minnesota Pollution Control Agency for the period from July 1, 1992 through June 30, 1995. We are always looking for ways to improve our operations. An audit can assist us in this endeavor.

Your audit came up with one finding: "The Pollution Control Agency inaccurately reimbursed some employee travel expenses." As noted, the errors are relatively small and center more on the lack of adequate documentation. We agree that we need to improve our process to check the validity and accuracy of expense reimbursements prior to payment and ensure compliance with established policies and procedures, including bargaining unit agreements. To this end, we plan to communicate with all employees as to required documentation. In addition, we will emphasize to supervisors, their responsibility to thoroughly review reimbursement requests prior to approval. The Fiscal Services staff will randomly review requests as a further check on proper documentation. Given the small amounts of money involved in the potential over-reimbursements, we have concluded, in conjunction with your staff, that the cost to research and collect the funds from staff would be greater than potential collections. We believe that the larger issue is our internal review and we are addressing that as stated above.

Again, thank you for working with us on this.

Sincerely,

Peter A. Larson  
Acting Commissioner  
Commissioner's Office

PAD:dmh