

Minnesota Pollution Control Agency

Programs Selected For Fiscal Year 1997 Statewide Audit

March 1998

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

98-15



STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Deanna Wiener, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

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

We have audited selected areas of the Minnesota Pollution Control Agency for the fiscal year ended June 30, 1997, as further explained in the Introduction. The work conducted in the agency is part of our Statewide Audit of the state of Minnesota's fiscal year 1997 financial statements and Single Audit. The Comprehensive Annual Financial Report for the year ended June 30, 1997, includes our report, issued thereon dated December 8, 1997. The Minnesota Financial and Compliance Report on Federally Assisted Programs for the year ended June 30, 1997, will include our reports on the supplementary information schedule, internal control structure, and compliance with laws and regulations, and a summary of prior audit findings. We anticipate issuing this report in March 1998. Therefore, we emphasize that this has not been a complete audit of all financial activities of the Minnesota Pollution Control Agency. The following Summary highlights the audit objectives and conclusions.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the Minnesota Pollution Control Agency complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the Minnesota Pollution Control Agency is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the 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 March 13, 1998.

A handwritten signature in cursive script, reading "James R. Nobles".

James R. Nobles
Legislative Auditor

A handwritten signature in cursive script, reading "Claudia J. Gudvangen".

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: December 19, 1997

Report Signed On: March 6, 1998

SUMMARY

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Minnesota Pollution Control Agency

Programs Selected for Fiscal Year 1997 Statewide Audit

Public Release Date: March 13, 1998

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Background Information

The Minnesota Pollution Control Agency (MPCA) was established in 1967 to protect Minnesota's environment through monitoring environmental quality and enforcing environmental regulations. The Legislature also established the Minnesota Pollution Control Agency Citizens Board to make policy decisions for the MPCA. The board consists of the commissioner and eight members who are appointed by the Governor and confirmed by the senate to four-year staggered terms. Mr. Peder Larson has been the commissioner of the MPCA since July 8, 1996.

Selected Audit Areas

Our audit scope was limited to those areas material to the state of Minnesota's Comprehensive Annual Financial Report for the year ended June 30, 1997, and to the Single Audit objectives. Our review of the Landfill Cleanup Program focused on the capital projects expenditures for construction during fiscal year 1997. Those expenditures amounted to approximately \$10.45 million. These capital projects are funded out of general obligation bonds. In addition, we reviewed the state's long-term financial obligation related to the estimated postclosure costs for the operation of landfills now under MPCA control. As of June 30, 1997, that liability was approximately \$307.6 million. In addition, we reviewed the Superfund State Site-Cooperative Agreements (CFDA #66.802). Total federal and state match expenditures under the Superfund program during fiscal year 1997 were approximately \$2.22 million.

Conclusions

The Minnesota Pollution Control Agency properly recorded its capital projects expenditures for construction in the state's accounting system (MAPS) for fiscal year 1997. In addition, the MPCA's calculation of the state's long-term liability for closure and postclosure care was reasonable and was properly disclosed in the state of Minnesota's Comprehensive Annual Financial Report.

The Minnesota Pollution Control Agency properly recorded the financial activities of the Superfund Program (CFDA # 66.802) in the state's accounting system (MAPS) for fiscal year 1997. In addition, the MPCA complied, in all material respects, with federal regulations applicable to the Superfund program.

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Tom Donahue, CPA	Audit Manager
Marina Mirman	Auditor-in-Charge

Chapter 1. Introduction

The Minnesota Pollution Control Agency (MPCA) was established in 1967 to protect Minnesota's environment through monitoring environmental quality and enforcing environmental regulations. The Legislature also established the Minnesota Pollution Control Agency Citizens Board to make policy decisions for the MPCA. The Citizens Board considers and makes decisions on varied and complex pollution problems that affect areas of the state. The board consists of the commissioner and eight members who are appointed by the Governor and confirmed by the senate to four-year staggered terms. Mr. Peder Larson has been the commissioner of the MPCA since July 8, 1996.

The MPCA is organized into five environmental divisions: Regional Operations, Air Quality, Ground Water and Solid Waste, Hazardous Waste, and Water Quality. It also has two support divisions: Administrative Services and Fiscal Services. The MPCA has approximately 800 employees who work at six offices throughout the state.

The primary objective of the Statewide Audit was to render an opinion on the state of Minnesota's financial statements included in the Comprehensive Annual Financial Report for fiscal year 1997. The Statewide Audit was designed to also meet the requirements of the Single Audit Act of 1984, revised in 1996, relating to federal financial assistance. The Single Audit objectives included compliance requirements as outlined in OMB Circular A-133.

Our audit focused on two programs administered by the MPCA: the Superfund State Site-Cooperative Agreements (CFDA #66.802) and the capital projects expenditures of the Landfill Cleanup Program. Total federal and state match expenditures under the Superfund program during fiscal year 1997 were approximately \$2.22 million. The Landfill Cleanup Program's capital projects expenditures during fiscal year 1997 were approximately \$10.45 million. The Landfill Cleanup and Superfund programs are discussed further in Chapters 2 and 3, respectively.

Chapter 2. Landfill Cleanup Program

Chapter Conclusions

The Minnesota Pollution Control Agency properly recorded its capital projects expenditures for construction in the state's accounting system (MAPS) for fiscal year 1997. In addition, the MPCA's calculation of the state's anticipated long-term liability for closure and postclosure care was reasonable and was properly disclosed in the state of Minnesota's Comprehensive Annual Financial Report.

The Landfill Cleanup Program (LCP) was created by the 1994 Minnesota Legislature as a part of the 1994 Landfill Cleanup Act. The purpose of the Landfill Cleanup Program was to ensure the proper closure and postclosure care at permitted municipal sanitary landfills. To qualify for the program, a landfill must have been permitted by the MPCA and had stopped accepting mixed municipal solid-waste by April 9, 1994, and demolition debris by May 2, 1995. In addition, the owners/operators had to enter into an agreement with the MPCA and complete certain requirements specified in the agreement. After all requirements were met, MPCA issued a Notice of Compliance. When a notice had been issued, MPCA assumed all future responsibility for any remaining cleanup work, closure construction, and the long-term care of the landfill. There are 106 landfills qualified for the program. As of June 30, 1997, the MPCA had issued 71 Notices of Compliance.

As part of the program, MPCA provides reimbursements to owners/operators of qualified landfills and to other parties who incurred eligible environmental response costs at qualified landfills (not including legal and administrative costs). Prior to the Landfill Cleanup Act, funding for the cleanup of landfills was derived in part from the federal Superfund.

The MPCA has been involved in design and/or construction at 28 landfills. The construction has included landfill covers, active gas systems, and ground-water treatment systems. Construction has begun or been completed at 21 landfills since the Landfill Cleanup Program began. These capital projects are funded out of general obligation bonds.

Our audit of the Landfill Cleanup Program focused on the capital projects expenditures for construction during fiscal year 1997. Those expenditures amounted to approximately \$10.45 million. In addition, we reviewed the state's long-term financial obligation related to the estimated postclosure costs for the operation of landfills now under its control. As of June 30, 1997, that liability was approximately \$307.6 million.

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Audit Objectives and Methodology

The primary objectives of our audit of the Landfill Cleanup Program were to:

- Determine whether MPCA properly recorded its capital projects expenditures for construction in the state's accounting system (MAPS) for fiscal year 1997; and
- Determine whether the MPCA's calculation of the state's anticipated long-term liability for closure and postclosure care was reasonable and properly disclosed in the state of Minnesota's Comprehensive Annual Financial Report.

To address these objectives, we interviewed key personnel to gain an understanding of the MPCA's procedures for processing and recording capital projects expenditures on the state's accounting system (MAPS). On a sample basis, we tested expenditures to determine if they were properly supported and approved for payment. We also interviewed key personnel responsible for calculating the state's long-term obligation for closure and postclosure care. We reviewed the supporting documentation and calculation for reasonableness.

Conclusions

The Minnesota Pollution Control Agency properly recorded its capital projects expenditures for construction in the states accounting system (MAPS) for fiscal year 1997. In addition, the MPCA's calculation of the state's long-term liability for closure and postclosure care was reasonable and properly disclosed in the state of Minnesota's Comprehensive Annual Financial Report.

Chapter 3. Superfund State Site

Chapter Conclusions

The Minnesota Pollution Control Agency properly recorded the financial activities of the Superfund program (CFDA # 66.802) in the state's accounting system (MAPS) for fiscal year 1997. In addition, the MPCA complied, in all material respects, with federal regulations applicable to the Superfund program.

In 1980, the U.S. Congress enacted the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). The federal Superfund law addressed past disposal practices and provided for direct federal response for the cleanup of hazardous waste sites that threatened human health or the environment. The Superfund was created to pay for the appropriate cleanup for abandoned or uncontrolled hazardous waste sites where parties responsible for the contamination were unknown, or unable to pay for the cleanup, or unwilling to undertake their cleanup responsibilities. In 1983, the Minnesota Legislature enacted state law to complement and parallel the CERCLA, the Minnesota Environmental Response and Liability Act (MERLA).

The state Superfund program uses an "enforcement first" approach, focusing on the identification of responsible parties to undertake the cleanup of hazardous waste sites. According to MPCA records, this approach resulted in the vast majority of cleanups being implemented using private dollars. Of the approximately \$39.08 million spent on cleanup activities in fiscal year 1997, about \$32.45 million, or 83 percent, was spent by the responsible parties.

Hazardous waste sites identified under the state and federal Superfund laws are included on either the Minnesota Permanent List of Priorities (PLP, the state Superfund list), or the National Priorities List (NPL, the federal Superfund list). As of June 30, 1997, MPCA had 138 sites identified on the PLP list, and 31 sites (a subset of the state sites) identified on the NPL list.

MERLA and CERCLA funds are used to oversee the work of the responsible parties and to select the site remedy. The MERLA fund is also used to provide the required state match for federal dollars coming into Minnesota to manage and clean up the federal Superfund sites in the state. Federal funds expended under the Superfund State Site program (CFDA # 66.802) totaled approximately \$1.83 million. The state match was \$391,000.

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Audit Objectives and Methodology

The objectives of the Single Audit Act related to federal financial assistance under the Superfund State Site- Cooperative Agreements were to:

- Consider internal control over compliance with requirements that could have a material and direct effect on the federal program;
- Determine whether MPCA recorded financial activities properly in the state's accounting system (MAPS); and
- Determine whether the MPCA complied with material federal regulations applicable to the Superfund program.

To address these objectives, we interviewed key personnel to gain an understanding of the MPCA's procedures for processing and recording activities for the Superfund program in the state's accounting system. We also tested financial transactions of the program to determine compliance with program regulations.

Conclusions

The Minnesota Pollution Control Agency properly recorded the financial activities of the Superfund program (CFDA # 66.802) in the state's accounting system (MAPS) for fiscal year 1997. In addition, the MPCA complied, in all material respects, with federal regulations applicable to the Superfund program.

Status of Prior Audit Issues

Most Recent Audit

Legislative Audit Report 96-34, issued in August 1996 covered the three fiscal years ended June 30, 1995. The 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 report contained one finding in which we determined that the agency had inaccurately reimbursed some employee travel expenses. We recommended that the agency improve its controls over the review and approval of employee expense reports and obtain possible repayments of those small amounts overpaid.

We did not follow up on this finding, mainly because employee travel expenses were not part of our current audit scope. However, the agency had agreed with the recommendation to improve their review process but decided against seeking reimbursement from employees for small overpayments. The agency determined that the cost to research and collect the funds from staff would be greater than potential collections.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota any quasi-state organizations, such as the metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.