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**OFFICE OF THE LEGISLATIVE AUDITOR**  
STATE OF MINNESOTA

Financial Audit Division Report

**Minnesota Pollution Control Agency**  
**July 2001 through June 2004**



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## Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota state government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately forty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of representatives and senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

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## OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

Senator Ann H. Rest, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Sheryl Corrigan, Commissioner  
Minnesota Pollution Control Agency

We conducted an audit of selected financial activities of the Minnesota Pollution Control Agency (MPCA) for the three years ended June 30, 2004. Our audit scope included hazardous waste, air quality, and water quality revenues and payroll and professional and technical services expenditures. Therefore, we emphasize that we have not conducted a comprehensive audit of MPCA. Our objectives focused on a review of MPCA's internal controls over these financial activities and its compliance with applicable legal provisions.

The enclosed Report Summary highlights our overall audit conclusions. The specific audit objectives and conclusions for each area are contained in the individual chapters of this report.

We would like to thank staff from MPCA for their cooperation during the audit.

*/s/ James R. Nobles*

James R. Nobles  
Legislative Auditor

*/s/ Claudia J. Gudvangen*

Claudia J. Gudvangen, CPA  
Deputy Legislative Auditor

End of Fieldwork: March 29, 2005

Report Signed On: June 14, 2005

# Minnesota Pollution Control Agency

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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
Jim Riebe, CPA	Audit Manager
Susan Rumpca, CPA	Auditor-in-Charge
Ching-Huei Chen, CPA	Auditor
Susan Mady	Auditor
Pat Ryan	Auditor

### **Exit Conference**

We discussed the findings and recommendations in this report with the following staff of the Minnesota Pollution Control Agency on June 7, 2005:

Sheryl Corrigan	Commissioner
Kristen Applegate	Deputy Commissioner
Romelda Kascht	Accounting Supervisor
Rod Massey	Director, Operational Support Division
Kathy Sather	Budget Manager

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## Report Summary

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### Overall Conclusions:

- In general, the Minnesota Pollution Control Agency (MPCA) accurately recorded receipts and expenditures in the state's accounting system and its internal billing system.
- The agency complied with legal provisions and management's authorization for expenditures, except that during the audit period MPCA did not always ensure that it had a valid contract and that it had sufficient funds available before vendors started work. In fiscal year 2005, however, the department significantly improved its compliance with these purchasing and contracting requirements.
- We identified certain weaknesses in MPCA's accounting procedures or noncompliance with certain financial related legal provisions, as follows.

### Key Findings:

- MPCA did not always adequately safeguard and promptly deposit all receipts. (Finding 1, page 8)
- The agency did not comply with legal requirements when establishing due dates and assessing late fees for certain receipts. (Finding 2, page 9)
- The agency did not fully reconcile activity on the state's accounting system and its internal billing system. (Finding 3, page 9)
- The agency did not verify that it correctly entered transactions in the payroll system. (Finding 5, page 13)

The audit report contained five findings relating to internal control and legal compliance. The board did not fully resolve one finding included in our prior audit report. We have repeated that finding in this report.

### Audit Scope:

#### Audit Period:

Fiscal Years 2002 - 2004

#### Selected Audit Areas:

- Hazardous waste, air quality and water quality revenues
- Payroll expenditures
- Professional and technical services expenditures

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### Agency Background:

The mission of MPCA is to help Minnesotans protect the environment. The agency administers and enforces all state statutes and federal laws relating to air quality, hazardous waste, solid waste, and ground water and surface water quality.

MPCA's expenditures totaled approximately \$100 million in fiscal year 2004. Payroll accounted for about \$53 million. Professional and technical services expenditures totaled about \$20 million.

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# Minnesota Pollution Control Agency

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## Chapter 1. Introduction

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The Office of the Legislative Auditor selected the Minnesota Pollution Control Agency (MPCA) for audit based on an annual assessment of state agencies and programs. We used various criteria to determine the entities to audit, including the size and type of each agency's financial operations, length of time since the last audit, changes in organizational structure and key personnel, and available audit resources. It had been four years since our last audit of MPCA.

### Agency Overview

The Legislature created MPCA and its Citizens' Board in 1967 to protect Minnesota's air, waters, and land. MPCA operates under the authority of *Minnesota Statutes*, Chapter 116. The statute also provides MPCA the authority to adopt rules and standards.

The mission of MPCA is to help Minnesotans protect the environment. The agency does this by administering and enforcing all state statutes and federal laws relating to air quality, hazardous waste, solid waste, and ground and surface water quality. MPCA examines the quality of the state's environment; develops rules that protect the public's health and the environment; and helps local government, industry, and individuals meet their environmental responsibilities. As a regulatory agency, MPCA's job is to limit pollution caused by businesses, organizations, and individuals.

The Citizens' Board consists of the commissioner and eight members who are appointed by the Governor and confirmed by the Senate to four-year staggered terms. The Governor appointed Sheryl Corrigan as the MPCA commissioner on December 16, 2002. The agency is comprised of seven divisions and has offices in eight cities across the state.

MPCA is funded mainly through state appropriations and federal grants. Expenditures during fiscal year 2004 totaled nearly \$100 million, with payroll expenditures comprising over 53 percent of this amount. Professional and technical services included in the audit scope accounted for another 20 percent of the total expenditures. We also included in the audit scope air quality, water quality, and hazardous waste fees, which are the largest revenue types collected by the department after federal grants. These three revenue types accounted for about \$16.7 million in collections during fiscal year 2004.

### Audit Approach

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of MPCA's internal controls relevant to the audit objectives. We used the guidance contained in *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate agency

## **Minnesota Pollution Control Agency**

controls. The standards also require that we plan the audit to provide reasonable assurance that MPCA complied with financial-related legal provisions that are significant to the audit. In determining the agency's compliance with legal provisions, we considered requirements of laws, regulations, contracts, and grant agreements.

To meet the audit objectives, we gained an understanding of MPCA's financial policies and procedures. We considered the risk of errors in the accounting records and noncompliance with relevant legal provisions. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined a sample of evidence supporting the agency's internal controls and compliance with laws, regulations, contracts, and grant provisions.

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## Chapter 2. Hazardous Waste, Air Quality, and Water Quality Revenues

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### *Chapter Conclusions*

*MPCA did not adequately safeguard all receipts. The agency collected receipts in numerous locations but did not ensure it deposited all receipts that were transferred between locations. MPCA accurately recorded receipt transactions in the state's accounting system and the agency's billing system, where applicable. However, in reconciling receipts between its billing system and the state's accounting system (MAPS), it did not ensure that reconciling items were cleared.*

*MPCA did not comply with legal requirements when assessing late fees and establishing due dates for some revenue types. Also, since some receipts were routed between divisions, MPCA did not always promptly deposit receipts, as required by statute.*

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MPCA collects a variety of revenues, but our audit scope included only air quality, water quality and hazardous waste revenues. The department deposits these receipts in the Environmental Fund as nondedicated revenues, which means the department is not authorized to spend these funds.

*Minnesota Statutes 2004*, Section 116.07, subdivision 4.d. provides that MPCA “may collect permit fees in amounts not greater than those necessary to cover the reasonable costs of developing, reviewing, and acting upon applications for agency permits and implementing and enforcing the conditions of the permits pursuant to agency rules.” The section further provides that MPCA does not have to comply with *Minnesota Statutes 2004*, Section 16A.1285, which requires state agencies to set fees at a rate that “neither significantly over recovers or under recovers costs, including overhead costs, in providing services.” In fiscal year 2005, MPCA projected water quality receipts of \$4.7 million and expenditures of \$9.8 million. Air quality and hazardous waste fees and expenditures are much more closely aligned.

Table 2-1 summarizes the revenue activity reviewed for the three fiscal years ended June 30, 2004.

# Minnesota Pollution Control Agency

**Table 2-1**  
**Selected Revenues by Type**  
**For the Three Fiscal Years Ended June 30, 2004**

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Air Quality Fees	\$ 9,625,875	\$ 8,887,594	\$10,034,695
Water Quality Fees	2,990,771	3,523,787	4,322,472
Hazardous Waste Fees	<u>1,992,613</u>	<u>2,223,189</u>	<u>2,406,179</u>
Total	<u>\$14,609,259</u>	<u>\$14,634,570</u>	<u>\$16,763,346</u>

Source: Budgetary basis revenues from the Minnesota Accounting and Procurement System.

## Air Quality Revenues

MPCA requires air quality permits for businesses to operate certain existing air emission facilities and to begin construction on either new facilities or to modify existing facilities. These permits contain a wide range of state and federal requirements to minimize the impact of the air emissions on the environment from these facilities. The kind of permit depends on how much air pollution the facility could potentially cause or the kinds of equipment the facility operates.

There are different processes for new facility permits and those facilities with existing permits. However, in both cases, MPCA generates invoices using an internal database. Before fiscal year 2004, MPCA billed, collected and deposited air quality fees. Beginning in fiscal year 2004, MPCA entered into an interagency agreement and the Department of Revenue assumed the collection and depositing responsibilities for air quality fees. The Department of Revenue also pursues unpaid accounts, assesses late fees, and notifies MPCA of fees collected from each facility.

## Water Quality Revenues

Water quality permits establish specific limits and requirements to protect Minnesota's surface and ground water for a variety of uses, including drinking water, fishing, and recreation. MPCA enforces permits through a combination of self-reporting and compliance monitoring.

The agency collects annual, application, and modification water quality permit fees. MPCA generates invoices for the annual water quality permit fees. Entities self-report and submit application and modification fees. MPCA does not know which entities will apply for new water quality permits; therefore, program staff enter the permit information into the agency's accounting system after receiving the application and fee.

During the audit period, MPCA collected water quality receipts, calculated late fees, and notified customers of past-due amounts. During fiscal year 2005, MPCA shifted the collection process for the water quality annual permits to the Department of Revenue, but continues to collect the application and modification fees.

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## Hazardous Waste Revenues

MPCA regulates facilities that generate, store, treat, and dispose of hazardous waste. Businesses or facilities that deal with hazardous waste are typically required to pay permit and license fees. MPCA assesses fees for the hazardous waste program based on the amount and type of waste generated by a facility or business and the way it is managed.

The hazardous waste program results in the following types of fees:

- hazardous waste generator license fees
- hazardous waste facility fees
- hazardous waste permit fees

Individual counties issue hazardous waste generator licenses for generators located within the seven-county metropolitan area. MPCA licenses hazardous waste generators located outside of the seven-county metropolitan area. For generators located within the seven-county metropolitan area, the county boards set the fee schedules, which include a statewide program fee that helps fund MPCA services. The counties collect the fees and remit the statewide program fee to MPCA.

For generators located outside the seven-county metropolitan area, MPCA calculates the license fees based on the data supplied on the application. MPCA invoices businesses for the fee which is remitted to the Department of Revenue for processing. The Department of Revenue periodically notifies MPCA of the amounts remitted by each generator.

MPCA also collects hazardous waste treatment, storage, and disposal (TSD) facility fees. There are 25 TSD facilities in Minnesota. Facility fees are based on the amount of hazardous waste a facility handles and are paid annually. TSD facilities also pay hazardous waste treatment, storage, and disposal permit fees. These permits allow the facility to operate for five years. MPCA calculates and collects facility and permit fees.

## Audit Objectives

Our audit of air quality, water quality, and hazardous waste fees focused on the following questions:

- Did MPCA safeguard and accurately account for receipt transactions?
- Did MPCA comply with significant finance-related legal provisions concerning revenues, such as prompt depositing and the assessment of late penalties?

As noted in Findings 1 through 3, MPCA had some internal control and compliance issues related to these revenues.

# Minnesota Pollution Control Agency

## Findings and Recommendations

### 1. **PRIOR FINDING PARTIALLY IMPLEMENTED: MPCA did not always adequately safeguard and promptly deposit some water quality and hazardous waste receipts.**

For certain water quality and hazardous waste receipts, many different agency staff receive checks from customers. This increases the risk of loss or theft and also results in delays in depositing the receipts. At least four agency staff receive nonannual water quality receipts from customers. Nonannual water quality receipts during the audit period were about 21 percent or \$2.3 million of the total water quality receipts. Three permit engineers also receive permit and facility fees from the hazardous waste facilities. Permit and facility fees during the audit period comprised about 26 percent or \$1.7 million of the total hazardous waste receipts. Program staff review the related correspondence and then forward the checks to fiscal services for depositing. Having so many staff process receipts increases the potential for lost receipts. For example, one hazardous waste permit fee of \$4,070 was not deposited for nearly five months. Agency staff discovered the check in a file when we questioned them about the missing receipt. At times, fiscal services staff receive the checks first and then forward them to program staff to determine the purpose of the receipt. However, fiscal services staff do not track the checks to ensure they are returned for depositing, increasing the risk of theft or loss.

The agency did not always promptly deposit receipts, especially those receipts handled by more than one person before deposit. *Minnesota Statutes 2004*, Section 16A.275 requires daily deposit of receipts in excess of \$250. Some water quality program staff stated that they process receipts only once a week. In other instances, employees located in another MPCA regional office collect receipts, such as water quality feedlot receipts. These employees forward the receipts to the program staff at the central office rather than depositing the receipts in a local state depository. Upon receipt at the central office, staff finally send the receipts to fiscal services for deposit. In addition, we were unable to determine compliance with the prompt depositing requirements for some water quality nonannual receipts, since the agency did not document the date it received the funds. These depositing delays result in noncompliance with the state's prompt depositing regulations.

#### *Recommendations*

- *MPCA should safeguard receipts by limiting the number of receipt collection points and discontinuing the process of forwarding receipts to program staff.*
- *The agency should revise procedures so that it complies with the state's prompt deposit requirements. Receipts collected at regional offices should be deposited in local state depositories; alternatively, the department could have the receipts sent directly to the central office instead of the regional offices. Furthermore, the department needs to record the date it receives nonannual water quality fees to document compliance with the prompt deposit statute.*

## Minnesota Pollution Control Agency

### **2. MPCA did not comply with legal requirements when assessing late fees and establishing due dates for certain receipts.**

For certain receipts, the agency did not assess late fees and establish due dates in compliance with legal requirements. Similarly, MPCA did not ensure that the Department of Revenue complied with those requirements for the receipts it collects on behalf of MPCA. Air quality, water quality, and hazardous waste each have separate Minnesota Rules that discuss the assessment of late fees. The rules for the three types of receipts require the assessment of late fees beginning the first day after the due date. The late fees range from ten to fifty percent of the fee amount. MPCA has an interagency agreement with the Department of Revenue where Revenue collects certain receipts and pursues unpaid accounts. However, the interagency agreement does not address the assessment of late fees.

In practice, both MPCA and the Department of Revenue charge late fees only if companies have not paid the fees by the first follow-up date, which occurs from six to eight weeks after the due date. If the company pays the invoice after the due date but before the follow-up date, neither MPCA nor the Department of Revenue assesses a late fee. The state potentially loses revenue because of this practice. Five of the ten companies tested did not pay the water quality annual fee by the due date established in the *Minnesota Rules*, and MPCA did not assess late fees.

Also, MPCA did not establish due dates for some receipts in compliance with legal requirements. *Minnesota Rules* 7002.0270 specifies the due dates for water quality annual permits. Receipts from these permits during the three-year audit period were about 79 percent of total water quality receipts, or \$8.6 million. The rules require companies to pay water quality annual permit fees within 30 days of receipt of an invoice. In fiscal years 2002 and 2003, MPCA included an additional 15-day grace period on its invoices. In fiscal year 2004, MPCA included an additional 30-day grace period on its invoices. Staff told us the agency has not strictly enforced the due dates because municipalities needed governing board authorization to pay the invoices, and approval normally took longer than the timeframe specified in the rules.

#### *Recommendations*

- *MPCA should comply with the legal requirements over the assessment of late fees and, through the interagency agreement, ensure that the Department of Revenue also complies with those provisions.*
- *MPCA should comply with legal requirements when calculating the water quality permit fee due date or seek a change to the applicable rules.*

### **3. The Minnesota Pollution Control Agency did not fully reconcile receipts on its billing system to the state's accounting system.**

MPCA performed reconciliations between its billing system and the state's accounting system (MAPS) during the audit period, but the reconciliations were not complete. The agency did not

## Minnesota Pollution Control Agency

adequately track reconciling items and ensure that the items were cleared in a future period. Good internal controls require a comparison whenever the same activity is recorded on two different systems. This ensures that the activity on both systems is complete and accurate. Reconciliations should be cumulative and include all financial activity. In addition, all reconciling items should be tracked until they are cleared.

### *Recommendation*

- *MPCA should perform comprehensive receipt reconciliations between its billing system and the state's accounting system and track all reconciling items to ensure that they clear in a future period.*

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## Chapter 3. Professional and Technical Services Expenditures

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### *Chapter Conclusions*

*MPCA's accounting controls provided reasonable assurance that professional and technical services were adequately supported and complied with applicable legal provisions and management's authorization. The expenditure transactions were accurately recorded in the state's accounting system, except that the agency did not correctly record the date the goods or services were received.*

*The agency complied with applicable finance-related legal provisions for the items tested, except that it did not always ensure it had an executed contract before the vendor started work and that it had encumbered the funds prior to the work beginning. However, the agency restructured its purchasing and contracting processes during fiscal year 2005 and significantly improved its compliance with purchasing and contracting legal provisions.*

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Professional and technical services expenditures totaled approximately \$20 million out of a total of about \$38 million MPCA spent on administrative expenditures in fiscal year 2004. The agency utilized professional and technical service contracts to secure architectural, engineering, environmental, and legal services, among others.

Most of the professional and technical services were related to the Superfund and Petrofund programs that identify, investigate, and determine appropriate cleanup plans for abandoned or uncontrolled hazardous waste sites. These are sites where a release or potential release of a hazardous substance, including petroleum leaks and spills, poses a risk to human health or the environment. Other professional and technical services expenditures related to costs associated with monitoring and maintaining Minnesota's closed municipal sanitary landfills and the Drycleaner Fund Program that helps clean up the soil, groundwater, or surface-water contamination at dry cleaning facilities.

### **Audit Objectives**

Our audit of professional and technical services expenditures focused on the following questions:

- Did the agency's controls help ensure that expenditures were adequately supported, accurately recorded in the state's accounting system, and complied with applicable legal provisions and management's authorization?
- Did the agency comply with significant finance-related legal provisions?

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As explained in Finding 4, MPCA had some errors when recording transactions on the state's accounting system.

### Finding and Recommendation

#### **4. MPCA often erroneously recorded in the accounting system the date it received goods or services.**

The agency did not always accurately record the record date, the date goods or services were received, on the state's accounting system. Of the 36 expenditure transactions we tested, the agency entered the incorrect record date for 23 items. Four of these samples were between \$1 million and \$3.3 million each. The record date signifies the date the agency received goods or services and is important because it prompts the recognition of a liability for the state's financial reporting purposes. The agency entered either the invoice date or the payment approval date for these transactions, rather than the date it received the goods or services.

#### *Recommendation*

- *PCA should use the date it received goods or services as the record date when recording transactions in the state's accounting system.*

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## Chapter 4. Payroll Expenditures

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### *Chapter Conclusions*

*MPCA's accounting controls helped ensure that payroll expenditures were accurately recorded in the accounting records and complied with applicable legal provisions and management's authorization. However, the agency did not verify that payroll transactions were correctly entered into the payroll system.*

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### **Background Information**

MPCA expended approximately \$53.2 million on payroll during fiscal year 2004. About 27 percent of this amount was federally funded. Payroll was the agency's largest expenditure category. It consisted of regular pay, part-time pay, overtime pay, separation pay, and other benefits. MPCA currently employs approximately 800 full-time or part-time employees. The agency used the state's payroll and personnel system (the Statewide Employee Management System or SEMA4) to process its payroll transactions.

### **Audit Objectives**

Our review of payroll expenditures focused on the following questions:

- Did MPCA have controls in place to help ensure payroll expenditures were authorized and accurately recorded in the state's accounting records?
- Did MPCA comply with material finance-related legal provisions and the bargaining unit agreements governing payroll expenditures?

Our review of payroll expenditures identified the following internal control weakness.

### **Finding and Recommendation**

#### **5. MPCA did not verify the accuracy of payroll transactions.**

The agency did not perform a verification of biweekly payroll transactions. Department of Finance Policy PAY0028 requires agencies to review the payroll register report each pay period to verify that hours, amounts, lump sum payments, and other adjustments were accurately input into the payroll system. Payroll is the largest expense category of MPCA's budget. To improve the effectiveness of the payroll verification process, someone independent of the payroll input function should conduct the review. The policy also requires agencies to document the review.

## Minnesota Pollution Control Agency

### *Recommendation*

- *MPCA should perform an independent verification of payroll transactions each pay period to help ensure that amounts processed agree with payroll amounts authorized by management.*

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## Status of Prior Audit Issues As of April 13, 2005

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**June 22, 2001, Legislative Audit Report 01-33** covered the three fiscal years ending June 30, 2000. The audit scope included revenues and operating expenditures. The report contained three findings related to revenues and one finding related to purchasing. MPCA resolved two findings. MPCA did not fully implement the recommendations related to safeguarding and promptly depositing receipts; therefore that issue is repeated in the current audit report as Finding 1. The last finding in the prior audit report dealt with controls over restitution fees. We did not determine the status of that finding since we did not include restitution fees in the scope of the current audit.

### 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 metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

# Minnesota Pollution Control Agency

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# Minnesota Pollution Control Agency

Office of the Commissioner

June 13, 2005

Mr. Jim Riebe, CPA  
Audit Manager  
Office of the Legislative Auditor  
Room 140 Centennial Building  
658 Cedar Street  
St. Paul, MN 55155-1603

Dear Mr. Riebe:

Thank you for the opportunity to respond to the findings and recommendations included in the limited-scope financial audit report of the Minnesota Pollution Control Agency (MPCA) for the period July 1, 2001 through June 30, 2004. We appreciate the report's overall conclusion that internal controls designed and implemented by the MPCA are safeguarding state resources. But, as pointed out in the report, there is an opportunity to refine our systems to provide more efficient resource management, and consistent compliance with all pertinent rules and regulations. To that end, we plan to act quickly on the five recommendations for improvement included in the report. The following discussion describes our proposed actions in response to each recommendation.

## Report Recommendations and Proposed Actions

The first recommendation is found at the end of Chapter 2 in the audit report. The recommendation is to safeguard receipts by:

1. limiting the number of receipt collection points;
2. discontinuing the process of forwarding receipts to program staff; and
3. revising procedures to ensure compliance with the state's prompt deposit requirements.

The findings behind this recommendation were noted in a prior audit for the MPCA, and a number of recommended actions were taken at that time to resolve the problem. Relative to the first point, our collection process was refined, and water and air fee revenues were remitted directly to our Fiscal Services Unit for processing. This greatly reduced the number of collection points for the majority of our receipts. In a further process improvement, these fees and our hazardous waste fees were directed to the Department of Revenue for collection.

Mr. Jim Riebe  
Page 2  
June 13, 2005

Also, in response to the prior audit finding, relative to the third point listed above, MPCA requested a limited exemption from M.S. 16A.275. We received the exemption for receipts related to training only.

These actions were helpful, but did not fully resolve the original finding. To obtain full closure on all three recommendations, MPCA's accounting supervisor and budget manager will confer with program staff to develop a plan to resolve the remaining issues. We will use our Six Sigma process improvement tools to develop the plan and implementation strategies by September 30, 2005.

The second recommendation is also from Chapter 2. This finding recommends compliance of the MPCA and Department of Revenue with the legal requirements regarding the assessment of late fees. Again, our accounting supervisor and budget manager will work with MPCA staff and Department of Revenue to resolve this issue by September 30, 2005. The resolution of this issue could entail further internal controls, or pursuit of a rule change.

The third recommendation from Chapter 2 calls for the performance of comprehensive receipt reconciliation between our billing system and the state's accounting system. In addition, the recommendation calls for the MPCA to track all reconciliations to ensure they clear in a future fiscal year. We are pleased to report this issue is resolved. Beginning in FY05, ongoing reports were run from the MPCA billing system and the state's accounting system for the air, water, and hazardous waste fees. All items are reconciled and tracked until they clear, regardless of the fiscal year.

The fourth recommendation is found in Chapter 3. This recommendation calls for the consistent application of the date goods or services are received when recording transactions in the state's accounting system. This issue is resolved. Accounts payable staff are trained to ensure the correct date is recorded in the state's accounting system. The accounting supervisor reviews the prompt payment report monthly and addresses any late payment or date issues.

The final recommendation is found in Chapter 4. The recommendation is for MPCA to perform an independent verification of payroll transactions each pay period to help ensure amounts processed agree with the amounts authorized. This issue is resolved. The MPCA accounting supervisor reviews the payroll register report each payroll period. The report is used as a comparison of a sample of employee timesheets and expense reports. This ensures data entered into the state's accounting system is accurate.

Mr. Jim Riebe  
Page 3  
June 13, 2005

Conclusion

Again, thank you for the opportunity to provide this response to the audit report. We are confident the actions we have taken, and the action plans we will develop by September 30, 2005, will completely resolve all remaining issues raised in the audit.

Sincerely,

*/s/ Sheryl A. Corrigan*

Sheryl A. Corrigan  
Commissioner

SAC:dd