

DEPARTMENT OF ENVIRONMENTAL QUALITY  
STATE OF LOUISIANA



PROCEDURAL REPORT  
ISSUED NOVEMBER 27, 2013

**LOUISIANA LEGISLATIVE AUDITOR  
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LOUISIANA LEGISLATIVE AUDITOR  
DARYL G. PURPERA, CPA, CFE

November 13, 2013

**DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**STATE OF LOUISIANA**  
Baton Rouge, Louisiana

As required by Louisiana Revised Statute 24:513, we conducted certain procedures at the Department of Environmental Quality (DEQ) for the period from July 1, 2011, through June 30, 2013.

- Our auditors obtained and documented a basic understanding of DEQ's operations and system of internal control through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to DEQ.
- Our auditors performed analytical procedures consisting of a comparison of the most current and prior year financial activity using DEQ's annual fiscal reports and/or system-generated reports and obtained explanations from DEQ management for any significant variances. We also scheduled waste tire payments to processors for informational purposes.
- Our auditors reviewed the status of the findings identified in the prior procedural report, dated May 24, 2012. The prior year finding relating to inadequate controls over revenues has been resolved by management. The findings relating to inadequate controls over the Waste Tire Management Program and inadequate controls over time and attendance records have not been resolved and are addressed again in this report.
- Based on the documentation of DEQ's controls and our understanding of related laws and regulations, our auditors performed procedures on DEQ contracts, accounts receivable, the Hazardous Waste Site Cleanup Fund, and the LaCarte procurement card program.

The Annual Fiscal Reports of DEQ were not audited or reviewed by us, and, accordingly, we do not express an opinion on those reports. DEQ's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

Based on the application of the procedures referred to previously, we have included all significant findings in this report for management's consideration.

### **Inadequate Controls over the Waste Tire Management Program**

DEQ has not implemented effective monitoring procedures over the Waste Tire Management Program (WTMP) to ensure that waste tire data used to calculate subsidized payments to waste tire processors is reasonable. This increases the risk that subsidies to waste tire processors could be based on inaccurate data, resulting in overpayments.

In response to a similar finding in the prior audit, DEQ provided its corrective action letter dated May 16, 2012, and outlined its intent to audit the processors' ending inventory and reconcile the audited inventory figures to the inventories reported by the processors. Further, management stated that the Waste Tire Program staff was developing analytical procedures that would determine if the amount of waste tire material processed is commensurate with the number of waste tires available for processing per manifest documentation. Although ending inventory audits were conducted as of June 30, 2012, and an analytical methodology was developed, management has not implemented these tools in an effort to determine the reasonableness of the waste tire data. From July 1, 2011, to June 30, 2013, DEQ disbursed \$19.2 million in subsidies to five waste tire processors.

WTMP was established by Louisiana Revised Statute 30:2418 to reduce the volume of waste tires in Louisiana by facilitating a market for recycled waste tire material. DEQ provides subsidies to registered waste tire processors that receive and process waste tires for use in approved projects. Subsidies are based on the total weight of eligible processed tire material marketed to qualified end-users under approved projects. Good internal controls require that management implement effective monitoring procedures that will provide reasonable assurance of the accuracy of data used to calculate subsidies.

Management should implement its developed monitoring procedures, including random inventory audits, investigation of variances, and other analytical procedures that will provide adequate assurance that the data used to calculate waste tire subsidies is reasonable. Management concurred with the finding and provided a corrective action plan (see Appendix A, pages 1-2).

### **Inadequate Controls over Time and Attendance Records**

For the third consecutive year, DEQ has not ensured that employee time and attendance records that support \$82.8 million of payroll expenditures are certified and approved in a timely manner, increasing the risk that inaccurate or fraudulent data could be entered and processed into the payroll system resulting in employee credit for time not worked. Our test of 31 time and attendance records processed from September through December, 2012 disclosed the following:

- Seventeen (55%) records were not approved by the employee's supervisor.

- Ten (32%) records were not timely approved by the supervisor ranging from 21 to 113 business days following the end of the pay period.
- Seven (23%) records were not certified for accuracy by an individual independent of the posting of hours in the statewide payroll system.
- Twenty (65%) records were not timely certified for accuracy of the hours posted by an individual independent of the posting of hours in the statewide payroll system ranging from 15 to 114 business days following the end of the pay period. As a result, hours for two records did not agree to the hours posted in the payroll system, requiring prior period adjustments.

Management has not adequately designed a policy that provides for timely approval and certification of time and attendance records. DEQ's policy provides that the supervisor shall certify the accuracy of the time and attendance records after a final cross check is completed by an individual independent of the posting of hours in the statewide payroll system. The policy requires that the final cross check be completed within four weeks following the end of the pay period. In addition, the policy allows for a delay in the final cross check until all prior period payroll adjustments for that pay period have been completed and processed by DEQ's human resource department.

Management should revise the policy to require the timely approval and certification of time and attendance records. Management concurred with the finding and provided a corrective action plan (see Appendix A, page 3).

#### **Lack of Segregation of Duties over Waste Tire Fee Audit Collections**

DEQ has not adequately segregated duties for auditing, billing, and collecting delinquent waste tire fees, which increases the risk of misappropriation due to error or fraud. DEQ's internal audit division is responsible for auditing waste tire generators. As part of that process, internal auditors calculate delinquent fees, bill the generators for those fees, and subsequently collect the fees for deposit by DEQ's accounts receivable division into the Waste Tire Management Fund. In addition, there is an incompatibility of functions because all internal auditors have access to perform all functions within the waste tire accounts receivable database, which could allow for data to be accessed and modified without proper authorization, review, and approval.

To be effective and independent within the entity, internal audit should not be responsible for operating activities including billing and collecting delinquent receivables. DEQ has not established adequate internal controls to ensure that internal audit, which determines delinquent waste tire fees as part of its internal audit function, cannot also bill and collect delinquent fees. In addition, management has not established effective monitoring for access to the accounts receivable database.

Management should segregate duties so that internal audit is not responsible for billing or collecting delinquent waste tire fees. In addition, management should assign access to systems to ensure adequate segregation of duties. Management concurred with the finding and provided a corrective action plan (see Appendix A, page 4).

The recommendations in this report represent, in our judgment, those most likely to bring about beneficial improvements to the operations of DEQ. The nature of the recommendations, their implementation costs, and their potential impact on the operations of DEQ should be considered in reaching decisions on courses of action.

Under Louisiana Revised Statute 24:513, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Daryl G. Purpera, CPA, CFE  
Legislative Auditor

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DEQ 2013

## APPENDIX A

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### Management's Corrective Action Plans and Responses to the Findings and Recommendations



**State of Louisiana**  
**DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**OFFICE OF MANAGEMENT & FINANCE**

October 18, 2013

Mr. Daryl G. Purpera, CPA, CFE  
Office of the Legislative Auditor  
Post Office Box 94397  
Baton Rouge, LA 70804-9397

Dear Mr. Purpera:

This is the Department of Environmental Quality's (DEQ) response to the reportable finding **"Inadequate Controls over the Waste Tire Management Program"**.

Management concurs that the department should have effective monitoring procedures to provide assurance the payment requests are not overstated. Although the department has not fully implemented its procedures, DEQ offers the following information:

- The DEQ Internal Audit Section will continue to develop the program for performing waste tire processor inventory audits to improve the effectiveness of these audits in providing additional assurance that the waste tire inventory data reported by the processors is reasonable. In addition, we will improve the timeliness of reporting findings and recommendations, so that management can address the findings and further examine variances outside of reasonable limits in a timely manner.

Although ending inventory audits were conducted on June 30, 2012, we acknowledge that improving the timeframe for completing the audits and reporting findings and recommendations to management will increase the effectiveness of these audits.

The following factors affected the timeframe for completing these initial inventory audits:

- Coordination of efforts with other groups within the agency for the first time
- Examination of additional permit requirements to determine compliance
- Development of the internal audit report format
- Retirement of previous Audit Manager prior to completion of these audit reports

- The DEQ Waste Tire Program staff has developed analytical procedures to determine if the amount of waste tire material processed is commensurate with the number of waste tires available for processing per manifest documentation. Each Processor's monthly eligible and ineligible processed pound per tire equivalent is compared with the Rubber Manufacturer Associations standard per pound tire equivalent, as well as the other processors average pound per tire equivalent, to ensure these values are within reasonable limits.

Currently, two years worth of data has been uploaded to the spreadsheets, and Waste Tire Program Staff is reviewing the data to determine a reasonable variance from the PTE. It will then be determined what course of action will be taken in the event of an unreasonable variance.

Sincerely,



Vince Sagnibene  
Undersecretary

**BOBBY JINDAL**  
GOVERNOR



**PEGGY M. HATCH**  
SECRETARY

**State of Louisiana**  
**DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**OFFICE OF MANAGEMENT & FINANCE**

October 17, 2013

Mr. Daryl G. Purpera, CPA, CFE  
Legislative Auditor  
Office of the Legislative Auditor  
Post Office Box 94397  
Baton Rouge, LA 70804-9397

Dear Mr. Purpera:

This is in response to the Department of Environmental Quality's (DEQ) reportable finding "Inadequate Controls over Time and Attendance Records". Management agrees that the department should provide for timely approval and certification of time and attendance records and we have revised the policy and communicated our changes to all employees.

DEQ's Policy #3002-88 - Time Entry Sign-In Sheet has been updated to require the supervisor to sign and date the timesheet of each employee by the Friday (pay day) after the close of each pay period. If the certification cannot be completed by the immediate supervisor within the timeframe allowed, the timesheet must then be submitted to the next level of management and so forth until the timesheet is certified to ensure the deadline is met. Administrators and managers will have responsibility for ensuring the signature deadline is met by all involved.

We are committed to making this change successfully throughout the organization and to ensuring that time entered is accurate or changes are made timely.

We appreciate the professionalism of your team of auditors and look forward to working closely with them for future audits.

Sincerely,

A handwritten signature in blue ink, appearing to read "Vince Sagnibene", with a long horizontal line extending to the right.

Vince Sagnibene  
Undersecretary

BOBBY JINDAL  
GOVERNOR



PEGGY M. HATCH  
SECRETARY

State of Louisiana  
DEPARTMENT OF ENVIRONMENTAL QUALITY  
OFFICE OF MANAGEMENT & FINANCE

October 18, 2013

Mr. Daryl G. Purpera, CPA, CFE  
Office of the Legislative Auditor  
Post Office Box 94397  
Baton Rouge, LA 70804-9397

Dear Mr. Purpera:

This is the Department of Environmental Quality's (DEQ) response to the reportable finding "**Lack of Segregation of Duties over Waste Tire Fee Audit Collections**".

Management concurs that segregation of duties over the waste tire fee audit collection should exist. The department shall take the appropriate action(s) as follows:

- The Audit Section will no longer be directly responsible for billing or collecting any fees. The department will utilize its Invoice Management Section to generate an invoice and its Accounts Receivable Section to collect any fees due to the department.
- DEQ was unaware that the Audit Section staff had full access write privileges to the Waste Tire Fee System Database. This was an oversight and was corrected on September 3, 2013. We have verified that the auditor's access is limited so that they can no longer perform write functions to the database. We have reviewed the database records and are confident that no auditor has updated, created or deleted any waste tire records in the Waste Tire Fee System.
- The Accountant Administrator as the security administrator for the department's accounting systems, will review on a periodic basis, security roles for all accounting databases and ensure that access is not improperly established and that access is limited to what is necessary to ensure proper segregation of duties.

Sincerely,

A handwritten signature in blue ink, appearing to read "Vince Sagnibene".

Vince Sagnibene  
Undersecretary