



DEPARTMENT OF ENVIRONMENTAL QUALITY USED TIRE RECYCLING INDEMNITY FUND

Operational Audit

For the period January 1, 2019 through June 30, 2023

Cindy Byrd, CPA
State Auditor & Inspector

**Audit Report of the
Department of Environmental Quality
Used Tire Recycling Indemnity Fund**

**For the Period
January 1, 2019 through June 30, 2023**



October 4, 2023

TO THE ENVIRONMENTAL QUALITY BOARD:

We present the audit report of the Department of Environmental Quality – Used Tire Recycling Indemnity Fund for the period of January 1, 2019 through June 30, 2023. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during our engagement.

This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.) and shall be open to any person for inspection and copying.

Sincerely,

A handwritten signature in blue ink that reads "Cindy Byrd".

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

**Department of Environmental Quality
Used Tire Recycling Indemnity Fund
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Background

The Oklahoma Department of Environmental Quality (DEQ or the Agency) was established by the Legislature in 1993 “to protect people through the air we breathe, the water we drink and the land on which we thrive.” Jointly, DEQ and the Oklahoma Tax Commission are responsible for the administration of the Used Tire Recycling Act. They are responsible for permitting and certifying used tire facilities, and for establishing rules that pertain to the remittance of fees and the allocation of monies accruing to the Used Tire Recycling Indemnity Fund.

Oversight

The Environmental Quality Board (Board) was established by law in 1993 upon the creation of DEQ. Each Board member is appointed by the Governor and confirmed by the Senate for a five-year term. Board members represent a cross-section of interests from manufacturing to statewide environmental groups. The Board is responsible for the appointment of DEQ’s Executive Director and the adoption of rules relating to the regulatory programs administered by the agency, as well as rules pertaining to DEQ practice and procedure.

Board members as of August 2023 are:

Michel Paque	Chair
Shannon Ferrell	Vice-Chair
Tracy Hammon	Member
James Kinder.....	Member
Perry Barton.....	Member
John Easton	Member
Matthew Newman.....	Member
Kenneth Hirshey, Jr.	Member
Alexandria Kindrick.....	Member
Richard Auer	Member
Steve Mason.....	Member
Tim Munson.....	Member
Billy Sims.....	Member

In addition, the Solid Waste Management Advisory Council (SWMAC) serves as the initial rulemaking body for the Land Protection Division and operates under the authority of the Oklahoma Solid Waste Management Act. The SWMAC holds public hearings, reviews solid waste issues, and reviews and approves solid waste rules, provides expertise about various solid waste issues.

The SWMAC consists of ten members appointed to three-year terms by the Governor, the Speaker of the House of Representatives, and the President Pro Tempore of the Senate.

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SWMAC members as of August 2023 are:

Jim Linn.....	Chair
Brenda Merchant.....	Vice-Chair
April Sacha.....	Member
Christopher Schaefer	Member
Rachel Hanigan	Member
M. Todd Adcock.....	Member
Mary Jo Reinhart.....	Member
Piotr Baidas	Member
Robert Joyce	Member
Rodney L. Cleveland	Member

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**Scope and
Methodology**

Our audit was conducted in response to 27A O.S., § 2-11-401.6(C), which states in part, "the State Auditor and Inspector shall perform or shall contract with an auditor or auditing company to perform an independent audit, as defined in paragraph 4 of subsection B of Section 212 of Title 74 of the Oklahoma Statutes, of the books, records, files and other such documents of the Tax Commission and the Department pertaining to the administration of the Fund."

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessment of materiality and risk for the period of January 1, 2019 through June 30, 2023. To assess risk and develop our audit objective, we held discussions with management, inspected documents and records, and performed data analysis and prior audit follow-up. These procedures included:

- Reviewing expenditure data from the state accounting system to assess the related financial trends for any notable risks.
- Evaluating the division's processes and documentation for tracking unauthorized tire dumps as required by Administrative Code 252:515-21-3.
- Evaluating the audit procedures related to the allocation of the tire waste funds as required by statute 27A O.S. § 2-11-401.4; we reviewed apportionment testwork that was performed by the Office of the State Auditor and Inspector, Single Audit Division, and met with staff to discuss their processes.
- Evaluating the Agency's processes and a selection of inspection reports related to the tire dealer inspections as required by 27A O.S. § 2-11-401.6(B.7).
- Reviewing the Agency's board meeting minutes and pertinent laws and regulations and assessing related risks.

One objective related to expenditures from the Indemnity Fund was developed as a result of these procedures, as discussed in the body of the report. No other significant risks or findings were identified.

We utilized sampling of transactions to achieve our objective. To ensure the samples were representative of the population and provided sufficient, appropriate evidence, the random sample methodology was

used. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Internal Control Considerations

The Government Accountability Office (GAO) emphasizes the importance of internal controls at all levels of government entities. Their *Standards for Internal Control*¹ outline the five overarching components of internal control: the control environment, risk assessment, information and communication, monitoring, and detailed control activities. Any component considered significant to our audit objectives is assessed during our procedures and included as appropriate in this report.

The *Standards for Internal Control* underscore that an internal control system is effective only when the five components of internal control are operating together in an integrated manner. They also stress that documentation is a necessary part of an effective internal control system and is required to demonstrate its design, implementation, and operating effectiveness.

¹ *Standards for Internal Control in the Federal Government*, or the "Green Book," sets standards and the overall framework for an effective internal control system in federal agencies and is treated as best practices for other levels of government. Last update 2014, accessible online at <https://www.gao.gov/products/GAO-14-704G>.

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OBJECTIVE Determine whether expenditures from the Used Tire Recycling Indemnity Fund were for the purposes described in 27A O.S. § 2-11-401.4.

Conclusion We determined that expenditures from the Used Tire Recycling Indemnity Fund were for the purposes described in 27A O.S. § 2-11-401.4.

Scope and Methodology To accomplish our objective, we performed the following:

- Researched and summarized all authorized purposes of expenditures from the Used Tire Recycling Indemnity Fund.
- Documented our understanding of the reimbursement request and expenditure processes through discussion with relevant staff at DEQ and the Oklahoma Tax Commission, and through review of documentation.
- Researched all vendors paid from the Used Tire Recycling Indemnity Fund during the audit period to ensure they were reasonable and appropriate given the purposes of the Fund.
- Reviewed key checklists and disbursement memos for fourteen randomly selected months from the audit period (26% of audit period months; 29% of audit period dollars or \$17,077,127 of \$57,752,744) to ensure approved DEQ expenditure documentation agreed to the final payment amounts.

No findings were identified as a result of these procedures.

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S·A·I
STATE AUDITOR & INSPECTOR



Cindy Byrd, CPA | State Auditor & Inspector

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