

OPERATIONAL AUDIT

DEPARTMENT OF ENVIRONMENTAL QUALITY
WASTE TIRE RECYCLING PROGRAM

For the period July 1, 2007 through March 31, 2011



*Independently serving the citizens of
Oklahoma by promoting the
accountability and fiscal integrity of
governmental funds.*



Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

**Audit Report of the
Department of Environmental Quality
Waste Tire Recycling Program**

**For the Period
July 1, 2007 through March 31, 2011**



Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

June 12, 2012

TO THE DEPARTMENT OF ENVIRONMENTAL QUALITY

This is the audit report of the Department of Environmental Quality, Waste Tire Program for the period July 1, 2007 through March 31, 2011. 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.

Sincerely,

A handwritten signature in blue ink, appearing to read "Gary A. Jones".

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

Department of Environmental Quality Operational Audit

Background The Oklahoma Waste Tire Recycling Indemnity Fund (the Fund) was created in 1989 to clean up historical tire dumps and to prevent further illegal dumping by providing a monetary incentive to promote proper disposal. The Department of Environmental Quality (DEQ) and the Oklahoma Tax Commission (OTC) are jointly responsible for the administration of the Waste Tire Recycling Act. The DEQ is responsible for permitting and certifying waste tire facilities as well as establishing and publicizing rules that pertain to the remittance of fees. The OTC is responsible for the allocation of monies accruing in the Waste Tire Recycling Indemnity Fund. According to a presentation to the Oklahoma Waste Tire Task Force by the DEQ's executive director on September 27, 2007, approximately 4.6 million tires have been removed from illegal tire dumps since 1990, with approximately 350,000 tires still remaining.

How is the program funded?

When a citizen purchases new tires or registers a new vehicle with the state, he/she is required to pay a waste tire recycling fee based upon the tire's diameter. Monies are paid to the OTC for deposit into the Fund.

What are these program funds spent on?

A portion of the waste tire fees received is allocated to the DEQ and the OTC for administering the program, and to the State Auditor and Inspector's Office for audit costs. The remaining monies are available to be paid to waste tire facilities, tire-derived fuel (TDF) facilities, and for use in erosion control and engineering projects.

What has been the activity in the Fund since inception?

Table 1 summarizes the Fund's revenue and expenditures for fiscal years 1990 to March of 2011.

Table 1-Revenue and Expenditures for FY 1990 to FY 2011 (through March 31)

Fiscal Year	Beginning Cash Balance	Fee and Interest Deposits	Claims Paid	Legislative Cash Transfers	Ending Cash Balance
1990	-	1,351,210	62,622	-	1,288,588
1991	1,288,588	1,683,723	1,675,925	-	1,296,386
1992	1,296,386	1,911,853	3,191,559	-	16,680
1993	16,680	1,801,276	1,673,265	-	144,691
1994	144,691	1,832,882	1,977,573	-	-
1995	-	1,957,562	1,735,641	-	221,921
1996	221,921	2,971,102	2,061,099	-	1,131,924
1997	1,131,924	4,261,270	2,384,298	-	3,008,896
1998	3,008,896	4,464,473	3,029,999	-	4,443,370
1999	4,443,370	4,557,407	4,273,195	4,300,000	427,582
2000	427,582	4,543,481	3,314,492	300,000	1,356,570
2001	1,356,570	4,509,102	3,235,683	-	2,629,989
2002	2,629,989	3,982,544	5,457,018	-	1,155,515
2003	1,155,515	4,579,942	5,731,505	-	3,952
2004	3,952	4,815,344	4,818,598	-	698
2005	698	4,664,488	4,618,942	-	46,244
2006	46,244	4,819,163	4,811,220	-	54,187
2007	54,187	5,165,534	5,169,721	-	50,000
2008	50,000	5,382,931	5,416,231	-	16,700
2009	16,700	5,084,025	5,080,500	-	20,225
2010	20,225	5,163,137	5,143,833	-	39,529
2011 through 3/31/11	39,529	4,143,736	4,133,736	-	49,529

Source: Oklahoma Tax Commission (unaudited, for informational purposes only)

Department of Environmental Quality Operational Audit

Key Personnel

Department of Environmental Quality
Steven A. Thompson, Executive Director
Ferrella March, Environmental Programs Manager

Oklahoma Tax Commission
Russell Hulin, Comptroller
Dolores Flowers, Accountant

Purpose, Scope, and

Sample Methodology This audit was conducted in response to 27A O.S. § 2-11-401.6, which requires the State Auditor and Inspector's Office to audit the books and records of the Waste Tire Recycling Indemnity Fund.

The audit period covered was July 1, 2007 through March 31, 2011

Sample methodologies can vary and are selected based on the audit objective and whether the total population of data was available. Random sampling is the preferred method; however, we may also use haphazard sampling (a methodology that produces a representative selection for non-statistical sampling), or judgmental selection when data limitation prevents the use of the other two methods. We selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. We identified specific attributes for testing each of the samples. When appropriate, we projected our results to that population.

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. This report is a public document pursuant to the Oklahoma Open Records Act, 51 O.S. § 24A.1 – 24A.29, and shall be open to any person for inspection and copying.

Objective 1 - To determine if the Agency's internal controls provide reasonable assurance that expenditures were accurately processed in accordance with applicable provisions of the Waste Tire Recycling Act, 27A O.S. § 2-11-401 – 2-11-415.

Conclusion The Agency's internal controls provide reasonable assurance that expenditures were accurately processed. However, some areas could be strengthened.

Methodology To accomplish our objective, we performed the following:

- Documented internal controls related to the expenditure processes which included discussions with Agency personnel, observation, and review of documents;

Department of Environmental Quality Operational Audit

- Tested controls which included:
 - Reviewing a random sample of 64 expenditure claims (totaling \$4,104,876.10) to ensure the manifest was reviewed by DEQ and the claim was properly approved.

Observation

DEQ Manifest Review Checklist

27A O.S. § 2-11-401.4 states the various requirements waste tire facilities must follow and documents that must be submitted in order to receive compensation under the Waste Tire Recycling Act. Based on review of 64 monthly manifest files, we noted that 2 files didn't have a manifest review checklist present in the file and 3 files contained the checklist but they were not signed by a Supervisor. When a review checklist is not completed or approved by a supervisor, waste tire facilities may be paid for more tires than they received.

Recommendation

We recommend the DEQ provide training to those employees who review manifests and supporting documentation from facilities as well as their supervisors to ensure they understand the importance of completing and reviewing the checklists.

Views of Responsible Officials

Program staff will receive training in reviewing manifests. The manifest checklist will be reviewed and its completion will be required before certification for reimbursement can be made for Qualified Applicants for Collection and Transportation (QACTs).

Observation

Manifests

Oklahoma Administrative Code 252:515-21-51(a)(1) states that a Waste Tire Compensation Manifest must be used for transportation of waste tires to a waste tire facility entitled to receive compensation from the fund. A four-part carbonless paper manifest form, numbered in sequence so that each manifest has a unique number, shall be provided by the waste tire facility. Of the 60 waste tire facility files we reviewed, one file, RTR Environmental LLC for the month of February 2011, did not contain any manifests. Based on discussion with management, DEQ is currently scanning all documents into their system and the manifests may have been misplaced during this process. The scanning process occurred after the documents were reviewed to ensure the amount the facility was seeking in reimbursement was accurate.

Recommendation

We recommend the DEQ establish and/or review agency policy regarding the process used when scanning documents to ensure no documents are misplaced. Employees assigned with the task of scanning documents should receive training surrounding this policy.

Department of Environmental Quality Operational Audit

Views of Responsible Officials

Program staff will ensure the completed documents are sent to central records for scanning. The Subject Matter Expert (SME) ensures the documents were scanned properly. The SME will report any error in document scanning to Central Records. A note will be placed in the file of date and time this error was identified and actions taken to remedy the error.

Objective 2 - To determine the Agency is in compliance with significant provisions of the Waste Tire Recycling Act, 27A O.S. § 2-11-401 and Oklahoma Administrative Code, 710:95 – 5 and 252:515 - 21.

Conclusion

The Agency appears to generally be in compliance with significant provisions of the Waste Tire Recycling Act. However, one area could be strengthened.

Methodology

To accomplish our objective, we performed the following:

- Discussed with DEQ personnel the procedures surrounding the Priority Cleanup List (PCL) as required by OAC 252:515-21-3(a) - (b);
- Reviewed documentation to ensure the number of tires authorized for reimbursement did not exceed the number of tires identified on the PCL, OAC 252:515-21-3(c);
- Reviewed documentation to ensure scales used by facilities who received reimbursement from the fund by weight were properly certified in accordance with OAC 252:515-21-32(h);
- Reviewed the apportionment testwork performed in OTC's annual audit to ensure Waste Tire Funds were properly apportioned according to 27A O.S. § 2-11-401.4(B);
- Reviewed a sample of sixty payments from the Waste Tire Recycling Indemnity Fund to ensure payments were made in accordance with 27A O.S. § 2-11-401.4(B)(3), § 2-11-401.4(C)(1), § 2-11-401.4(C)(2)(a), § 2-11-401.4(C)(3)(a), § 2-11-401.4(D)(1), § 2-11-401.4(C)(2)(d)(3), OAC 710:95-5-13(c)(d)(h) and OAC 710:95-5-20(c)(d)(f);
- Reviewed the tire dealer inspection database to ensure DEQ performed periodic inspections of tire dealers throughout the state per 27A O.S. § 2-11-401.6(B)(7);
- Reviewed a sample of 60 tire dealers from the database to ensure inspections were performed per 27A O.S. § 2-11-401.6(B)(7).

Observation

Priority Cleanup List (PCL)

OAC 252:515-21-3(a) states that when DEQ receives notification of or information about the existence of an unauthorized waste tire dump, a dump survey shall be conducted to determine landowner information, cleanup feasibility, and an estimate of the number of tires present. The resulting data shall

Department of Environmental Quality Operational Audit

be used to prioritize tire dumps on the priority cleanup list (PCL). We reviewed the PCL, which did not appear to be in any certain order. When waste tire dumps are not prioritized the resources of the program may not be used as efficiently as possible.

Recommendation

We recommend the DEQ use a program such as Excel or software that would allow employees to continually update the number of tires remaining in a dump and the feasibility of the cleanup, which would then be used to create the PCL. We also recommend policy be adopted requiring a new PCL to be published once a quarter.

Views of Responsible Officials

The program has implemented the use of an excel spreadsheet that helps to prioritize the tire dumps. This ranking can be found in the first column of the PCL for tire dumps only. The higher the number, the more feasible the dump is to clean up. Our priority is to significantly reduce the number of tire dumps in Oklahoma in three (3) years in order to mitigate harm to human health and the environment. Immediate harm to human health and the environment are weighted as such that these dumps receive priority. The PCL is regularly updated as reports are received from QACTs.



OFFICE OF THE STATE AUDITOR AND INSPECTOR

2300 N. LINCOLN BOULEVARD, ROOM 100

OKLAHOMA CITY, OK 73105-4896

WWW.SAI.OK.GOV