



Claire McCaskill

Missouri State Auditor

February 2006

NATURAL RESOURCES

Solid Waste Management Program



Office Of The
State Auditor Of Missouri
Claire McCaskill

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The following problems were included in our audit report on the Department of Natural Resources, Solid Waste Management Program.

The Solid Waste Management Program (SWMP) is under the supervision of the Division of Environmental Quality within the Department of Natural Resources (DNR). The main goal of the program is to reduce the amount of solid waste generated in the state of Missouri. There are 20 Solid Waste Management Districts (districts) statewide. Our audit included onsite reviews of four of the 20 districts.

During the year ended June 30, 2005, nearly \$11 million in tonnage fees paid by solid waste haulers was transmitted to the DNR, which represented 99 percent of the revenues of the DNR's Solid Waste Management Fund. The SWMP should review its procedures to monitor the tonnage fees received from each landfill and transfer station to better ensure that the proper fee amounts are remitted to the DNR. In addition, the SWMP does not track the total costs incurred to issue landfill and transfer station permits, and the amount of permit fees does not appear to cover the costs of issuing the permits. The maximum fees of \$8,000 for landfills and \$4,000 for transfer stations, are usually charged. These amounts were set approximately ten years ago and may not be an accurate reflection of the current costs incurred by the program.

The DNR provides funding through the Solid Waste Management Fund to assist districts in the development of an adequate infrastructure for solid waste reduction, recycling, and resource recovery. The districts administer grant funds provided to subgrantees for projects within the districts' boundaries. During the year ended June 30, 2005, over 50 percent of the tonnage fees collected, or approximately \$5.9 million, was allocated for district grant funding.

Quarterly reports for the districts were not submitted to the DNR within the required timeframe, with seven of the 20 districts submitting reports after the required 30 day period and three districts not submitting a quarterly report for at least one of the quarters reviewed. Also, districts receiving \$200,000 or more of financial assistance in any fiscal year are required to provide a copy of an independent auditor's report. Only three district audit reports had been submitted to the SWMP since fiscal year 2002. In fiscal year 2005 alone, there were at least eight districts that received over \$200,000 from the Solid Waste Management Fund. In addition, onsite inspections were performed by the SWMP for only two of the 20 districts during the three years ended June 30, 2005.

District L incurred some administrative expenditures which appear to be unnecessary and inappropriate uses of public funds, including:

(over)

YELLOW SHEET

- The district spent \$41,523 for the services of a lobbyist during the three years ended June 30, 2005. District records indicate cities and counties contributed approximately \$20,001 during this time period, so it appears approximately \$21,522 in state funds (which includes interest earned on state funds) were used for the lobbyist expenses, contrary to program regulations.
- The district received approval from its board to spend up to \$6,000 for a mural and made purchases totaling \$4,125 during 2003 through 2005 for other art work, both of which appear to be unnecessary expenditures of public funds. Additionally, the district spent \$1,871 on books during fiscal years 2004 and 2005. Documentation did not indicate that the books were clearly related to solid waste and recycling.

Some districts are accumulating large fund balances and are not spending grant funds on a timely basis. District L had a fund balance of \$4.5 million as of April 30, 2005. Of this amount, approximately \$2 million was encumbered for grants which had not yet been spent by the subgrantees with some of the grants awarded as far back as 1999. The remaining \$2.5 million is comprised of unspent administrative funds and interest earned on both grant and administrative funds. During the year ended June 30, 2004, this district expended a total of approximately \$2 million for grants and operations. Additionally, District T has funds encumbered for grants awarded as far back as 1996. This district has also approved new grants for education and dump clean-up programs, while grant monies awarded in previous years for the same purposes have not yet been spent.

A standard Financial Assistance Agreement (FAA) is required for all grant agreements and is applicable for 12 months after its execution. A new FAA can be prepared to extend the initial grant period. Districts L and M did not have a current FAA for some subgrantees with open grant awards and District L made payments to subgrantees after the expiration of the period identified in the FAA. Also, state regulations require districts to retain fifteen percent of financial assistance until fund approval is given for a project. Three of the four districts reviewed did not always comply with this regulation.

Two of the four districts paid vendors directly for items purchased by subgrantees rather than reimbursing the subgrantees. Three of the four districts reimbursed subgrantees for grant expenses even though quarterly reports were not submitted on a timely basis. Of grants reviewed, 80 percent for District L, 80 percent for District T, and 33 percent for District M included reimbursements to sub-grantees prior to or without receiving quarterly reports.

In 2005, District M's board awarded \$15,000 in grants to each of the four counties within the district prior to reviewing and evaluating the grant applications received from private individuals and businesses. Some grant applications received from other individuals and businesses were turned down due to lack of available grant funds.

Physical inventories of capital assets were not performed by three of the four districts reviewed, Districts F, M, and T. In District M, a subgrantee went out of business and sold its equipment purchased with grant funds. Since no physical inventories were performed, district personnel were unaware that the assets were sold until auditors asked to see the equipment.

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DEPARTMENT OF NATURAL RESOURCES
SOLID WASTE MANAGEMENT PROGRAM

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STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

Honorable Matt Blunt, Governor
and
Doyle Childers, Director
Department of Natural Resources
and
Daniel R. Schuette, Director
Division of Environmental Quality
Jefferson City, MO 65102

We have audited the Department of Natural Resources, Solid Waste Management Program. The scope of this audit included, but was not necessarily limited to, the years ended June 30, 2005, 2004, and 2003. The objectives of this audit were to:

1. Review internal controls over significant management and financial functions.
2. Review compliance with certain legal provisions.
3. Review the Solid Waste Management Program's procedures for maximizing revenues.
4. Review the Solid Waste Management Program's procedures for monitoring the expenditure of funds provided to Solid Waste Management Districts and other subrecipients.

Our methodology to accomplish these objectives included reviewing written policies, financial records, and other pertinent documents; interviewing various personnel of the agency, as well as certain external parties; and testing selected transactions.

In addition, we obtained an understanding of internal controls significant to the audit objectives and considered whether specific controls have been properly designed and placed in operation. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We also obtained an understanding of legal provisions significant to the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk

assessment, we designed and performed procedures to provide reasonable assurance of detecting significant instances of noncompliance with the provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the department's management and was not subjected to the procedures applied in the audit of the program.

The accompanying Management Advisory Report presents our findings arising from our audit of the Department of Natural Resources, Solid Waste Management Program.



Claire McCaskill
State Auditor

August 16, 2005 (fieldwork completion date)

The following auditors participated in the preparation of this report:

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MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

DEPARTMENT OF NATURAL RESOURCES
SOLID WASTE MANAGEMENT PROGRAM
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1. Tonnage and Permit Fees

The Solid Waste Management Program (SWMP) should improve its procedures to monitor the reasonableness of tonnage fees received from landfills and transfer stations. In addition, the SWMP should track the total costs of issuing permit applications to ensure the permit fees charged to landfill and transfer station operators are sufficient to cover the program's costs.

The tonnage fee is a per-ton disposal fee paid by solid waste haulers on waste disposed of in Missouri landfills or sent out-of-state through permitted transfer stations. Tonnage fees are collected by the landfills and transfer stations and transmitted to the Department of Natural Resources (DNR). The tonnage fee, currently \$2.11 per ton, is set by statute and adjusted annually according to the Consumer Price Index. During the year ended June 30, 2005, nearly \$11 million in tonnage fees was transmitted to the DNR, which represented 99 percent of the revenues of the DNR's Solid Waste Management Fund.

Tonnage fee collections are allocated by statute to provide funding for the SWMP, as well as grant funds for waste reduction and recycling projects through the Environmental Improvement and Energy Resources Authority, and Solid Waste Management Districts. In addition, the SWMP issues permits to landfills and transfer stations to become approved to accept solid waste, and permit fees are charged to the landfill and transfer station operators as allowed by statute.

A. The SWMP should review its procedures to monitor the tonnage fees received from each landfill and transfer station to better ensure that the proper fee amounts are remitted to the DNR. The SWMP keeps track of monthly fees received from each landfill and transfer station, but does not perform or document analytical procedures to compare collections over time. Formal analytical procedures should be performed on a regular basis to help ensure the fees remitted by landfills and transfer stations are reasonable, and to allow the SWMP to follow-up on unreasonable and possible erroneous amounts.

In addition, the SWMP should consider additional means to help ensure that the proper amount of tonnage fees are being collected and remitted by the landfills and transfer stations. Such means could include increased on-site reviews of landfill and transfer station records, observation of operations, and reasonable ways to estimate the amount of solid waste collected by landfills based on the size and capacity of each landfill.

Section 260.330.4, RSMo, states:

"The department may examine or audit financial records and landfill activity records and measure landfill usage to verify the collection and transmittal of the charges. . . . The department may promulgate by rule and regulation procedures to ensure and to verify that the charges imposed herein are properly collected and transmitted to the department."

While the department had adopted some rules and regulations regarding the collection and transmittal of tonnage fees, it appears the department should consider adopting additional policies and procedures to better monitor the collection and transmittal of tonnage fees. Adequate monitoring of tonnage fees is especially important due to the increased reliance on this source of revenue to fund the SWMP. Prior to fiscal year 2003, more than 50 percent of SWMP's funding came from state general funds, but due to budget cuts, the SWMP is currently funded entirely from the Solid Waste Management Fund.

- B. The SWMP does not track the total costs incurred to issue landfill and transfer station permits, and the amount of permit fees does not appear to cover the costs of issuing the permits. SWMP personnel indicated that costs incurred to issue and review permits are tracked only up to the maximum amount that can be charged by statute, and the maximum fee amount does not adequately cover the costs. The maximum fees set by Section 260.205.5(6), RSMo, for landfills and transfer stations are \$8,000 and \$4,000, respectively, and the maximum amount is usually charged. These amounts were set approximately ten years ago and may not be an accurate reflection of the current costs incurred by the program. Also, the SWMP is required to review landfill and transfer station modification requests as well as beneficial use and clean fill requests. No fees are charged or statutorily authorized for these reviews, and the SWMP does not currently track the costs of reviewing these requests.

To help ensure the costs of reviewing and processing landfill and transfer station permits is recovered through permit fees, the SWMP should track all applicable costs and consider seeking legislation to increase the maximum allowable permit fee. In addition, the SWMP should consider seeking authority to charge fees for landfill and transfer station modification, beneficial use, and clean fill requests.

WE RECOMMEND the DNR, through the Solid Waste Management Program:

- A. Adopt policies and procedures to better monitor the collection and transmittal of tonnage fees, including regular analytical reviews of tonnage fee receipts and more on-site reviews of landfills and transfer stations.
- B. Track all costs related to issuing landfill and transfer station permits and consider seeking legislation to increase the maximum allowable permit fee to ensure the

permit fee is sufficient to cover all applicable costs. In addition, SWMP should consider seeking authority to charge fees for landfill and transfer station modification, beneficial use, and clean fill requests.

AUDITEE'S RESPONSE

- A. *We agree. The department had been performing a monthly review of tonnage fees and comparing total fees received over time and tracking that each landfill and transfer station reports tonnage quarterly but has now expanded this analysis to include a quarterly comparison of fees from each landfill and transfer station over time. The department will pursue other means to help ensure that the proper amount is collected such as on-site reviews and observation of operations.*
- B. *We agree. In addition to tracking the department's review cost up to the maximum allowed by statute, the department is now tracking cost above the maximum as well. The department may pursue a legislative change in the future that would enable it to be reimbursed for the total cost in reviewing permit applications. Consideration will also be given to legislative changes that would enable reimbursement for the cost of reviewing permit modifications, beneficial use determinations, and clean fill requests.*

2. District Monitoring

Procedures to monitor funds provided to Solid Waste Management Districts need to be improved.

The DNR provides funding through the Solid Waste Management Fund to assist Solid Waste Management Districts (districts) in the development of an adequate infrastructure for solid waste reduction, recycling, and resource recovery. The districts administer grant funds provided to subgrantees for projects within the districts' boundaries, based on the Financial Assistance Agreement with the department, and the Program Guidance Document, General Terms and Conditions, and Special Terms and Conditions. During the year ended June 30, 2005, over 50 percent of the tonnage fees collected, or approximately \$5.9 million, was allocated for district grant funding.

- A. Quarterly reports for the districts were not submitted to the DNR within the required timeframe. The quarterly reports show active district grants and their status for the quarter. Quarterly report submission by districts was reviewed for July through December of 2004. Seven of the 20 districts submitted reports after the required 30 day period and three districts did not submit a quarterly report for at least one of the quarters reviewed. At least five of these late reports noted above were submitted more than 70 days after the required 30 day period, with two of these reports being over 100 days late.

Regulation 10 CSR 80-9.050(3)(B) require quarterly reports to be submitted within 30 days of the close of each quarter. Program Guidance Document (Item

#12 of Attachment 2) states that any district which fails to submit timely quarterly reports will not be eligible to receive further funding; however, no district funds have been withheld because of untimely report filings. Without adequate report submission, the SWMP has less assurance that grant funds are being spent appropriately according to grant agreements.

- B. Very few districts obtained audits or submitted audit reports to the SWMP, and procedures need to be improved to ensure that required district audits are performed and submitted.

Prior to legislation enacted in 2005, requirements for district audits were not clear. Section 260.335.2(2), RSMo, stated that each district shall submit, within 90 days of the end of the fiscal year, an audited report of the expenditure of all funds received from the Solid Waste Management Fund. The Program Special Terms and Conditions required districts receiving \$200,000 or more of financial assistance in any fiscal year to provide a copy of an independent auditor's report on the fair presentation of the district's financial statements; the internal control structure; and compliance with applicable laws and regulations. Further, the Program Special Terms and Conditions indicated that districts receiving less than \$200,000 in a fiscal year were not required to have annual audits. However, this guidance also made reference to Section 260.335, RSMo. (which appeared to require annual audits for all districts), and indicated that "the department's auditors or their representatives will continue to conduct periodic independent audits of these districts."

Our review of audit reports received as of April 2005 noted that only three district audit reports had been submitted to the SWMP since fiscal year 2002. In fiscal year 2005 alone, at least 8 of the 20 districts received over \$200,000 from the Solid Waste Management Fund.

Legislation passed in 2005 will require districts receiving over \$200,000 to obtain annual independent audits and those receiving under \$200,000 will be required to obtain biennial audits. In addition, the department will be required to audit each district every three years, if funds are available. The SWMP needs to adopt procedures to ensure all districts are audited as required by the new legislation and ensure districts submit audit reports. In addition, the SWMP should review each audit report and follow-up on all audit recommendations to help ensure the districts implement the audit recommendations.

- C. In fiscal year 2000, the SWMP established procedures to perform onsite inspections of each district once every fiscal year; however, SWMP personnel indicated that due to staff vacancies and budget constraints, onsite visits could not be performed annually for each district. Onsite inspections were performed by the SWMP for only two of the 20 districts during the three years ended June 30, 2005. The SWMP should consider re-establishing procedures to perform regular

onsite inspections of all districts to aid in the monitoring of funds provided to the districts.

Our audit included specific onsite reviews of four of the 20 Solid Waste Management Districts, and the subsequent findings in this Management Advisory Report (MAR) include concerns noted for the four districts reviewed. It appears that the lack of district monitoring allowed many of the concerns noted to go undetected by the SWMP.

WE RECOMMEND the DNR, through the Solid Waste Management Program:

- A. Ensure quarterly reports are submitted by the districts in accordance with department policy before allocating additional funds to the districts.
- B. Ensure districts are audited as required by state law and audit reports are submitted and reviewed, and adopt procedures to follow-up on all district audit recommendations.
- C. Adopt procedures to perform regular onsite inspections of all districts.

AUDITEE'S RESPONSE

- A. *We agree. The department continually strives to encourage the submittal of accurate and timely quarterly status reports pursuant to the Code of State Regulations and special terms and conditions. The grant manager sends an email reminder that reports are due to all district planners at the end of each quarter. The department will not disburse additional funds to a district if the district has not submitted all due quarterly reports. The department will communicate this in writing to those districts where applicable.*
- B. *We agree. With the passage of Senate Bill 225 during the 2005 legislative session, all districts will be required to have an independent audit performed by a certified public accountant or a firm of certified public accountants. Disbursements to districts will be withheld if a district does not submit the required audit or does not address audit recommendations.*
- C. *We agree. The department intends to conduct a performance audit of each district at least once every three years as required by Senate Bill 225 (Section 260.325, RSMo) passed during the 2005 legislative session. As stated in Senate Bill 225, the department will conduct these audits subject to the limitations of resources. The department has had to reduce the number of staff involved in district oversight during the past year because of reduced funding but will strive to perform the audits of each district at least once every three years.*

3.**District Administrative Expenditures**

One district incurred some administrative expenditures which appear to be unnecessary and inappropriate uses of public funds. District L spent funds for art work, gifts, books, and a lobbyist.

- A. The district received approval from its board to spend up to \$6,000 for a mural painted on a conference room wall. The district rents the office space and received approval from the owner to have the mural painted. Our review noted \$1,800 has been paid toward the completion of this mural. District personnel indicated the mural was not yet completed so it appears additional expenditures will be incurred for this project. In addition, bids were not solicited for this project. District personnel indicated this was a specialty service and indicated that bids were not necessary.

In addition to expenses incurred for the mural, the district made purchases totaling \$4,125 during 2003 through 2005 for other art work, such as paintings and sculptures which are displayed at the district office.

- B. The district spent \$1,871 on books during fiscal years 2004 and 2005. District officials indicated the books were related to solid waste and recycling and were given to sub-grantees. However, several invoices for these purchases did not indicate that the books were clearly related to solid waste and recycling, and the amount spent on books appears unreasonable.
- C. The district incurred expenditures of \$782 for gifts, meals, and memorial donations for board members and employees. Examples include \$102 for Christmas gifts for board members and \$142 for a Christmas luncheon for board members and employees. These types of expenditures do not appear to be necessary costs of district operations or appropriate uses of public funds, and could be more appropriately funded through an employee association or private donations.
- D. The district spent \$41,523 for the services of a lobbyist during the three years ended June 30, 2005. Although district officials indicated the lobbyist was paid only from funds received from cities and counties located in the district, the district did not have records to support this. District records indicate cities and counties contributed approximately \$20,001 during this time period, so it appears approximately \$21,522 in state funds (which includes interest earned on state funds) were used for the lobbyist expenses. Although the district obtained a legal opinion saying the lobbyist expense was acceptable, Program Special Terms and Conditions indicate that state grant funds provided to districts cannot be used for acquiring lobbying services. Furthermore, Section 2, Attachment 2, of Program Special Terms and Conditions states, "Interest earned from grant monies may be used to fund costs as long as they are reimbursable under the provisions

established in the District Grants rule and directly benefit the district grant program."

In addition, the contract between the district and the lobbyist included no mention of the services to be performed by the lobbyist and indicated that the lobbyist would be paid throughout the calendar year. Contracts should define the services to be performed for the compensation to be paid, and it does not appear necessary to retain lobbying services for the entire calendar year when the legislature is only in session for about 5 months each year.

The SWMP's General Terms and Condition requires that all expenditures of the funds provided to districts be in compliance with the Office of Management and Budget (OMB) Circular A-87 for state and local governments. This circular states, "a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost." The above expenditures do not appear to be prudent uses of public funds or costs necessary to operate the district. According to Attachment 2 of the SWMP's Special Terms and Conditions (11), "Districts are responsible for ensuring proper use of the funds. Districts will repay the amount of any improperly expended funds to the program for deposit into the Solid Waste Management Fund."

WE RECOMMEND the DNR, through the Solid Waste Management Program, better monitor district expenditures to help ensure districts are not making unnecessary and inappropriate purchases, and seek reimbursement for any improperly expended funds.

AUDITEE'S RESPONSE

We agree. When the department discovers unnecessary and inappropriate uses of public funds, we will seek reimbursement. The grant program established by Senate Bill 530 in 1990 and implemented by state rule 10 CSR 9.050 provides funds to solid waste districts which are to be managed in accordance with statute, rule, department's general terms and conditions, and department's special terms and conditions applicable to district grants. The incurring and paying of allowable administrative costs are the responsibility of the districts and should be made in accordance with these requirements. The department will monitor the operations of the districts through performance audits established in Senate Bill 225 passed during the 2005 legislative session and will review the district's procedures, but the day to day implementation of these procedures must be the responsibility of the district. The department will also evaluate the content of the quarterly reporting information required from the districts to determine if any additional information should be reported. The department will withhold funds to the four districts audited in this report until the findings are resolved.

4.

District Fund Balances

Some districts are maintaining large fund balances, and some district grant monies are not spent in a timely manner.

According to the fiscal year 2005 district grant proposals submitted to the SWMP, the approximate balance held by 15 of the 20 districts and not intended for use in fiscal year 2005 totaled approximately \$4.6 million (information for the remaining 5 districts was not readily available). This total of unused funds reported by the districts includes unencumbered grant funds, encumbered grant funds for previous years, interest, and unused administrative funds.

One of the districts we reviewed, District L, had a fund balance of \$4.5 million as of April 30, 2005. This district is the largest regarding the amount of state funds received and spent. Of this amount, approximately \$2 million was encumbered for grants which had not yet been spent by the subgrantees, with some of the grants awarded as far back as 1999. The remaining \$2.5 million is comprised of unspent administrative funds (\$1.4 million) and interest earned on both grant and administrative funds (\$1.1 million). According to district officials, the board of this district desires to maintain a balance of a minimum of one-year operating reserve for unforeseen circumstances, such as the loss or delay in funding. During the year ended June 30, 2004, this district expended a total of approximately \$2 million for grants and operations.

Another district that we reviewed, District T, has funds encumbered for grants awarded as far back as 1996. This district has also approved new grants for educational and dump clean-up programs, while grant monies awarded in previous years for the same purposes have not yet been spent. Regulation 10 CSR 80-9.050(5) indicates that any district grant funds not spent within 24 months of the grant award date may be reallocated by the DNR. DNR officials indicated that no district grant funds have been reallocated that were not spent within 24 months of the grant award date.

While the above regulation indicates that unused grant funds may be reallocated over time, there appears to be no rules or regulations to limit the amount of administrative funds or interest that a district can accumulate over time. Senate Bill 225, passed in 2005, amends the provisions of Chapter 260, RSMo and limits the amount of operating funds that the SWMP can accumulate to one-fourth of the department's previous fiscal year expenses. A similar requirement for district administrative and interest funds would appear to be effective in limiting the accumulation of large district fund balances. Allowing district grant, administrative, and interest funds to accumulate unused is not helping reach the SWMP's goal of reducing the amount of solid waste generated statewide.

WE RECOMMEND the DNR, through the Solid Waste Management Program, monitor the fund balances held by districts and reallocate unused grant funds in accordance with state rules and regulations. In addition, the SWMP should adopt rules and regulations limiting the amount of administrative and interest funds accumulated by the districts.

AUDITEE'S RESPONSE

We agree. The department is convening a stakeholder group with representatives of the districts, recycling businesses, and solid waste disposal industry to update the district grant rule as a

consequence of the passage of Senate Bill 225 during the 2005 legislative session. We will also seek specific procedures to limit the accumulation of unused grant, administrative, and interest funds by the districts and procedures to reallocate amounts above the limit to other districts to encourage solid waste management efforts. The quarterly reports have been revised for fiscal year 2006 to include the reporting of unused grant and interest funds. We will ask the stakeholder group to review the quarterly reports to determine if any additional information should be reported. In addition, the department added to its special terms and conditions for district grants starting July 1, 2005, that the project periods are not to exceed 2 years with one 6 month extension. Not having projects open over several years should also reduce district fund balances.

5.

District Subgrantee Procedures

Our review of selected districts noted noncompliance with rules and regulations related to district grants awarded to subgrantees.

- A. A standard Financial Assistance Agreement (FAA) is required for all grant agreements and is applicable for 12 months after its execution. DNR Reimbursement Procedures state that eligible costs must be incurred within the grant period identified on the FAA. Therefore, a grant period cannot exceed 12 months unless a new FAA is prepared to extend the initial grant period.

Our review of the four districts noted that two of the districts, Districts L and M, did not have a current FAA for some subgrantees with open grant awards. One of the two districts, District L, made payments to subgrantees after the expiration of the period identified in the FAA.

To ensure compliance with the grant agreements and to help ensure only eligible expenses are reimbursed within the grant period, a current FAA should be maintained for each open grant award.

- B. Regulation 10 CSR 80-9.050(4)(C) states, "The executive board shall retain fifteen percent (15 percent) of the funds from the recipient until the board gives approval to the recipient's final report and the final accounting of project expenditures." Three of the four districts reviewed did not always comply with this regulation. Of the grants reviewed in these three districts, error rates were 2 of 4 (50 percent) for District F, 2 of 5 (40 percent) for District T, and 3 of 7 (42 percent) for District M. While District F often obtained approval from their board to pay out all funds to the subgrantee before the receipt of the final report, the district should comply with the terms of this regulation and withhold 15 percent for all grant projects until the final report is received and approved.
- C. Program General Terms and Conditions, Attachment 3, states that, "The recipient will be reimbursed for all allowable expenses incurred in performing the scope of services." Our review of the four districts noted that two districts paid vendors

directly for items purchased by subgrantees rather than reimbursing the subgrantees. District L made a payment of \$24,633 directly to a vendor for the purchase of a vehicle for a subgrantee, and District M made payments totaling \$8,909 directly to two vendors for various subgrantee purchases.

To ensure compliance with the grant agreements, districts should not make payments directly to subgrantee vendors and should only reimburse the subgrantees for allowable costs. Making payments directly to vendors may not allow the districts to retain 15 percent of the approved grant amount prior to approval of the final grant report.

- D. In District T, grant reimbursements were made for expenses that were not related to the purpose of grants. The district awarded \$18,000 each year for the three years ended June 30, 2005, for the purpose of locating and cleaning up illegal dumping sites. Over these three years, only \$4,641 was spent of the \$54,000 made available, and this entire amount of \$4,641 was paid to a district board member for mileage reimbursement and wages. The board member's time and mileage records indicate that only \$626 was paid to him for the purpose of illegal dump clean-up, and the remaining \$4,015 was paid to him for administrative activities, including time and mileage to drive to the district office and sign district checks.

Program Special Terms and Conditions, Attachment 2, Section 10, states, "Any funds awarded to a district which are not expended (or encumbered) for the purpose for which the funds were awarded, will be repaid by the district to the Missouri Department of Natural Resources, Solid Waste Management Program for deposit into the Solid Waste Management Fund."

- E. Three of the four districts we reviewed reimbursed subgrantees for grant expenses even though quarterly reports were not filed on a timely basis. Of the grants reviewed, 8 of 10 (80 percent) for District L, 4 of 5 (80 percent) for District T, and 2 of 6 (33 percent) for District M included payments to subgrantees prior to or without receiving quarterly reports. The Program Guidance Document and Regulation 10 CSR 80-9.050(5)(B), requires the submission of quarterly reports within 30 days of the end of the quarter before additional funds can be distributed to subgrantees.
- F. District M granted funds to some cities and counties without adequately evaluating the proposals received from these entities. In 2005, this district's board awarded grants in the amount of \$15,000 each to four counties within the district. These grants to the counties were awarded prior to reviewing and evaluating the grant applications received from private individuals and businesses, and some of the grant applications received from the individuals and businesses were turned down due to the lack of available grant funds.

According to 10 CSR 80-9.050(10)(C), "the board must evaluate each grant on the required criteria." There appears to be no rule or regulation which exempts cities and counties from the competitive grant evaluation process that is to be used by all districts. Competitive grant evaluation helps ensure grants are awarded for the best and most efficient proposals.

Section 260.335.6, RSMo, requires the DNR to review the performance of all grant recipients to ensure that grant monies are appropriately and effectively spent. While the DNR has developed rules and regulations related to district grants awarded to subgrantees, better monitoring is needed to help ensure compliance with applicable rules and regulations and to help ensure grant monies are appropriately and effectively spent.

WE RECOMMEND the DNR, through the Solid Waste Management Program, work with the Solid Waste Management Districts to:

- A. Ensure districts maintain a current FAA for all grants and do not reimburse subgrantees if the FAA is expired.
- B. Ensure districts withhold 15 percent of the grant funds until the final report from the subgrantee is received and approved.
- C. Ensure districts only make grant payments to subgrantees on a reimbursement basis and do not pay subgrantee vendors directly.
- D. Ensure districts spend grant monies only for the stated purpose and pursue repayment of expenditures made outside the specified grant purposes.
- E. Ensure districts obtain quarterly reports from subgrantees on a timely basis.
- F. Ensure districts only award grants based on a competitive grant evaluation process, and that certain entities are not exempted from this process.

AUDITEE'S RESPONSE

The grant program established by Senate Bill 530 in 1990 and implemented by state rule 10 CSR 9.050 050 provides funds to solid waste districts which they are to manage in accordance with statute, rule, department's general terms and conditions, and department's special terms and conditions applicable to district grants. The processing of payments to subgrantees are the responsibility of the districts and should be made in accordance with these requirements. The department will monitor the operations of the districts through performance audits established in Senate Bill 225 passed during the 2005 legislative session and will review the district's subgrantee procedures, but the day to day implementation of these procedures must be the responsibility of the district. The department will also evaluate the content of the quarterly reporting information required from the districts to determine if any additional information should be reported.

- A. *We agree. The department will track FAA project periods for all new projects and will not disburse additional funds to the district if the district has any open projects with expired FAA. The department will require an amended FAA for all such projects before additional funds will be released.*
- B. *We agree. Districts should withhold 15% until the project is complete and the final report is received and approved.*
- C. *We agree. Districts should only make payments on a reimbursement basis and ensure the district retains 15% until the project is complete and the final report is received and approved.*
- D. *We agree. Districts should use grant funds for the stated purpose.*
- E. *We agree. Districts should not make payments to subgrantees before receiving all quarterly reports that are due.*
- F. *We agree.*

6. District Capital Assets

Capital assets purchased with district grant monies are not adequately accounted for or monitored as required by department regulations.

- A. Of the four districts reviewed, Districts F and T did not maintain listings of capital assets purchased with grant monies. DNR's General Terms and Conditions Section J, applicable to solid waste district grants, states, "Property records must be maintained that include a description of the equipment, a serial number or other identification number, the sources of the property, percentage of federal participation in the cost of the property, the location, use and condition of the property."

Capital asset listings are needed to ensure assets purchased with district grant monies are being used and maintained according to grant agreements.

- B. Physical inventories of capital assets were not performed by three of the four districts reviewed, Districts F, M, and T. DNR General Terms and Conditions, Section J (2) states, "A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years. A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property." Physical inventories are necessary to ensure all capital assets are properly accounted for and to ensure the asset listings are accurate and complete.

In District M, a subgrantee went out of business and sold its equipment purchased with grant funds. While this district maintained a listing of capital assets, no physical inventories were performed. As a result, district personnel were unaware that the assets were sold until we asked to see the equipment.

- C. Districts do not always require proof of insurance coverage on the assets purchased by subgrantees. Two of the four districts, Districts F and M, did not obtain proof of insurance from subgrantees. According to DNR Special Terms and Conditions, Section 4, Item 3d, "The subgrantee shall procure and maintain insurance, with financially sound and reputable insurance companies in such amounts and covering such risks as are usually carried by companies engaged in the same or similar business and similarly situated, on all equipment purchased with Solid Waste Management Fund monies."

In District M, there was a fire at a subgrantee site that destroyed assets purchased with district grant monies. The subgrantee was insured and was able to replace the equipment; however, without obtaining proof of insurance, districts cannot be assured assets purchased with grant monies would be able to be replaced in the event of fire, theft, or loss.

WE RECOMMEND the DNR, through the Solid Waste Management Program, work with the Solid Waste Management Districts to:

- A. Ensure districts maintain listings of capital assets purchased with grant monies with all applicable information required by department regulations.
- B. Ensure districts perform and maintain records of physical inventories of capital assets and reconcile the results with the property records at least once every two years.
- C. Ensure districts obtain proof of insurance from subgrantees purchasing assets with district grant monies.

AUDITEE'S RESPONSE

A-C. *We agree. The grant program established by Senate Bill 530 in 1990 and implemented by state rule 10 CSR 9.050 provides funds to solid waste districts which they are to manage in accordance with statute, rule, department's general terms and conditions, and department's special terms and conditions applicable to district grants. The safeguarding of capital assets are the responsibility of the districts and should be made in accordance with these requirements. The department will monitor the operations of the districts through performance reviews established in Senate Bill 225 passed during the 2005 legislative session and will review the district's capital asset procedures, but the day to day monitoring of capital assets must be the responsibility of the district. The department will also evaluate the content of the quarterly reporting information required from the districts to determine if any additional information should be reported.*

FOLLOW-UP ON PRIOR AUDIT FINDINGS

DEPARTMENT OF NATURAL RESOURCES
SOLID WASTE MANAGEMENT PROGRAM
FOLLOW-UP ON PRIOR AUDIT FINDINGS

In accordance with *Government Auditing Standards*, this section reports the auditor's follow-up on action taken by the Department of Natural Resources (DNR) on findings specific to the Solid Waste Management Program (SWMP) in the Management Advisory Report (MAR) of our prior audit report issued for the department for the three years ended June 30, 2002. The prior recommendations which have not been implemented, but are considered significant, are repeated in the current MAR. Although the remaining unimplemented recommendation is not repeated, the agency should consider implementing that recommendation.

6. Storm Water and Solid Waste Management Grants

- C.1. Quarterly grant progress reports for Solid Waste Management Districts (SWMDs) and subgrantees, as required by the grant agreements and state regulation, were not submitted to the DNR within the required timeframe.
- 2. The DNR did not ensure audits were submitted by the SWMDs within the required timeframe and did not follow up on audit recommendations addressed in the audit reports. The DNR Special Terms and Conditions required SWMDs receiving \$200,000 or more in annual financial assistance to provide the DNR with copies of an independent audit report.
- 3. Onsite annual inspections, as required by department policy, were not performed for some SWMDs.
- D.1. Quarterly reports for grantees for entities other than SWMDs, as required by the grant agreements and state regulation, were not submitted to the DNR within the required timeframe.
- 2. The DNR did not ensure 15 percent of funds were retained from the grantee prior to performing a final inspection of projects, as required by state regulation.
- 3. The DNR did not review supporting documentation for certain expenses incurred by grant recipients.

Recommendation:

The department:

- C.1. Ensure quarterly reports are submitted to the SWMP by the SWMDs and the subgrantees within the required timeframe.

2. Ensure all required audit reports are obtained and received by the DNR within the required timeframe. In addition, the DNR should follow up on audit recommendations to ensure all audit findings are properly resolved.
 3. Ensure onsite inspections are performed in compliance with department policy.
- D.1. Ensure quarterly reports are submitted to the SWMP within the required timeframe.
2. Ensure the SWMP retains 15 percent of funding from the grantee until the final inspection is performed in accordance with state regulations.
 3. Ensure the SWMP obtains and reviews supporting documentation from the subgrantee, including paid invoices or canceled checks.

Status:

- C.1. Not implemented. See MAR finding numbers 2 and 5.
- C.2
&3. Not implemented. See MAR finding number 2.
- D.1. Partially implemented. Only one of four tested during the current audit did not have grant reports submitted timely, and applicable grant reports were submitted no more than one month after the due date. Although not repeated in the current MAR, our recommendation remains as stated above.
- D.2
&3. Implemented.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

DEPARTMENT OF NATURAL RESOURCES
SOLID WASTE MANAGEMENT PROGRAM
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION

The Department of Natural Resources was established by the Omnibus State Reorganization Act of 1974, which was revised in Section 640.010, RSMo. The previous eleven independent agencies were organized into one department to provide management and administration over the state's natural resources. The department administers various programs for the utilization of the state's natural assets.

The department is organized into five divisions. The Office of Director oversees the operations and administration of the department. Each division is headed by a division director, who coordinates activities to meet the objectives of the department. The Solid Waste Management Program is under the supervision of the Division of Environmental Quality. The main goal of the program is to reduce the amount of solid waste generated in the state of Missouri. The program provides solid waste management permitting, monitoring, and enforcement efforts to help prevent illegal dumping and other factors that may cause long-term social, economic, and environmental problems.

In 1990, the Solid Waste Management Fund was established by Section 260.330, RSMo. Money in this fund comes from a fee collected when waste is disposed of in Missouri's landfills, or when it is sent through a transfer station for disposal in another state. Portions of these fees help fund waste reduction and recycling projects in Missouri. Recycling projects are funded through funds passed on to the Environmental Improvement and Energy Resources Authority, Target Grants, and Solid Waste Management District Grants. Solid Waste Management Districts were established by Section 260.305, RSMo. There are twenty districts statewide.

The Solid Waste Advisory Board (SWAB) was established by Section 260.345, RSMo, to advise the department regarding solid waste management issues. The SWAB is composed of the chairman of the executive board of each district and up to five additional members appointed by the Director of the department.

A summary of the program's legal requirements and authority through the department is provided below:

- Section 260.330.2, RSMo: “The department shall, by rule and regulation, provide for the method and manner of collection” of the solid waste landfill fee.
- Section 260.330.4, RSMo: “The department may examine or audit financial records and landfill activity records and measure landfill usage to verify the collection and transmittal of the charges established in this section. The department may promulgate by rule and regulation procedures to ensure and to verify that the charges imposed herein are properly collected and transmitted to the department.”
- Section 260.335.3, RSMo: “The department shall promulgate criteria for evaluating (solid waste management) grants by rule and regulation.”

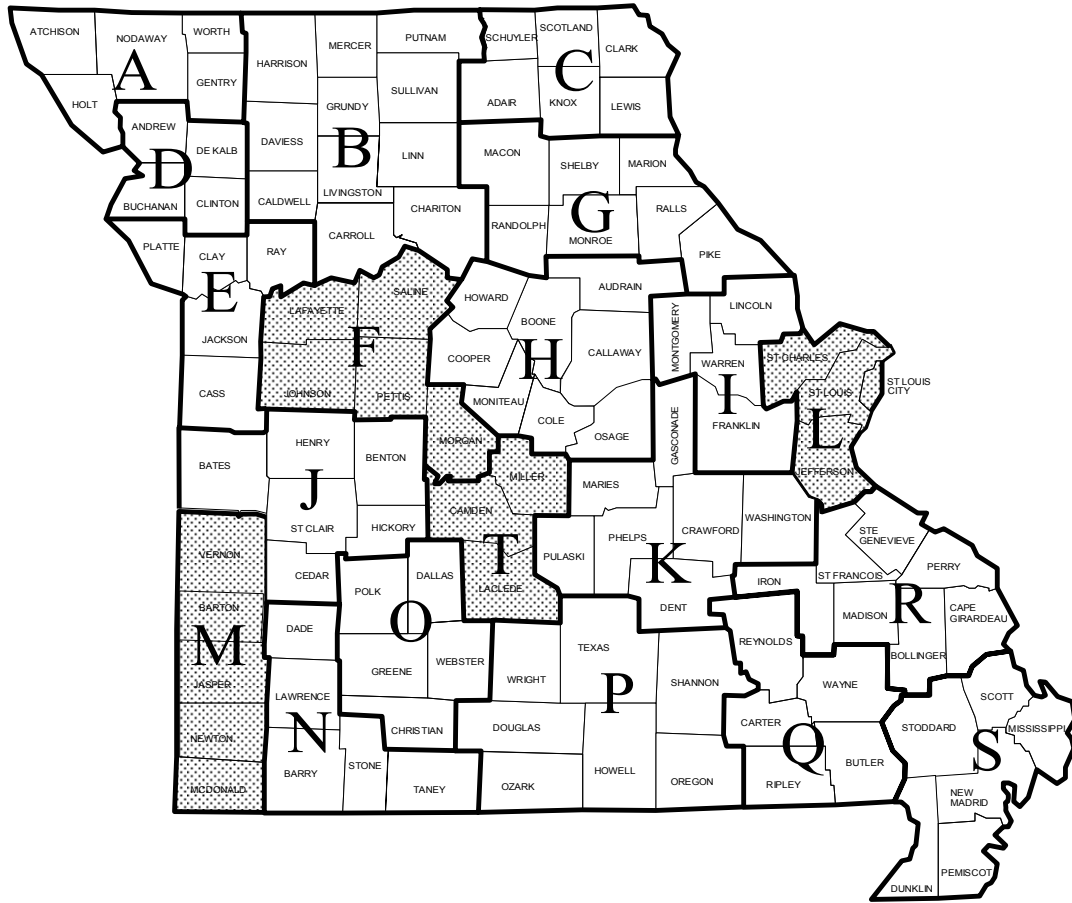
- Section 260.335.6, RSMo: “The department, in conjunction with the solid waste advisory board, shall review the performance of all grant recipients to ensure that grant moneys were appropriately and effectively expended to further the purposes of the grant, as expressed in the recipient’s grant application. ”

During the 2005 legislative session, the Missouri General Assembly passed and the Governor signed Senate Bill 225, which includes significant changes to Chapter 260, RSMo for solid waste management in the state. This legislation modifies the allocation of solid waste fees to the department and solid waste management districts. Overall, the proposal reduces the amount of funding available to the department and increases the amount available to local solid waste districts, including an increase in the minimum amount awarded to each district. The districts are required to have independent financial audits conducted by certified public accountants and performance audits conducted by the department.

The director of the department is appointed by the governor and confirmed by the Senate. In February 2005, Doyle Childers was appointed department Director. Stephen Mahfood, the previous department Director, had served since 1998. Daniel R. Schuette was appointed the Director of the Division of Environmental Quality in August 2005. The previous division Director (formerly known as the Air and Land Protection Division) was Jim Werner. Jim Hull has been the Director of the program since February 2005. The previous Director of the program was Roger Randolph. As of March 2005, the program employed approximately 35 individuals.

A state map of the Solid Waste Management Districts is included on the following page.

SOLID WASTE MANAGEMENT DISTRICTS OF MISSOURI



Districts reviewed during the audit