



Thomas A. Schweich
Missouri State Auditor

NATURAL RESOURCES

Division of Environmental Quality

Solid Waste Management Program

September 2013
Report No. 2013-092



<http://auditor.mo.gov>



Thomas A. Schweich
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the Department of Natural Resources, Division of Environmental Quality, Solid Waste Management Program

Background	The Department of Natural Resources (DNR), Solid Waste Management Program's (SWMP) main goal is to reduce the amount of solid waste generated in the state. The program provides solid waste management permitting, monitoring, and enforcement efforts to help prevent illegal dumping and environmental problems. The state is divided into 20 solid waste management districts which assist the DNR in implementing the state's solid waste management plan, with an emphasis on diverting waste from landfills. The primary source of funding for the program is a fee collected when waste is disposed of in Missouri's landfill, currently \$2.11 per ton.
Fee Structure and Administrative Costs	The program should perform a comprehensive review to determine if changes are needed in its fee structure and services could be provided more cost effectively. The tonnage fee charged appears high, the operating costs as a percentage of allocated revenue incurred by the solid waste management districts is significant and varies considerably among the districts, and significant funding allocated to the districts has accumulated in the Solid Waste Management Fund. Missouri charges a higher tonnage fee than 6 of 8 border states, and, during fiscal years 2011 and 2012, the operating cost percentages for Missouri's solid waste management districts varied from a low of 7 percent to a high of 50 percent. In addition, amounts allocated to solid waste management districts are more than needed for current operations. Funding is allocated to the districts in accordance with the statutory funding formula, and \$7.6 million allocated to the districts remained unspent at June 30, 2012.
District Audit Requirements	State laws require three separate audits for each solid waste management district, which is excessive and inefficient. The DNR should consider seeking legislation to streamline district audit requirements.

In the areas audited, the overall performance of this entity was **Good**.*

*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

All reports are available on our website: <http://auditor.mo.gov>

Department of Natural Resources
Division of Environmental Quality - Solid Waste Management Program
Table of Contents

State Auditor's Report 2

Management Advisory
Report - State Auditor's
Findings

- 1. Fee Structure and Administrative Costs4
- 2. District Audit Requirements.....7

Organization and Statistical
Information 8

Appendix

- A Comparative Statement of Receipts, Disbursements, and
Changes in Cash and Investments - Solid Waste Management
Fund,
2 Years Ended June 30, 20129
- B Comparative Statement of Appropriations and Expenditures,
2 Years Ended June 30, 2012..... 10
- C Comparative Statement of Expenditures (From Appropriations),
5 Years Ended June 30, 2012..... 11



THOMAS A. SCHWEICH

Missouri State Auditor

Honorable Jeremiah W. (Jay) Nixon, Governor
and
Sara Parker Pauley, Director
Department of Natural Resources
and
Leanne Tippett Mosby, Director
Division of Environmental Quality
Jefferson City, Missouri

We have audited certain operations of the Department of Natural Resources, Division of Environmental Quality, Solid Waste Management Program in fulfillment of our duties under Chapter 29, RSMo. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2012 and 2011. The objectives of our audit were to:

1. Evaluate the program's internal controls over significant management and financial functions.
2. Evaluate the program's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the program, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We also obtained an understanding of legal provisions that are significant within the context of 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 instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our 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 such a basis.

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

For the areas audited, we identified (1) no significant deficiencies in internal control, (2) no significant noncompliance with legal provisions, and (3) the need for improvement in management practices and procedures. The accompanying Management Advisory Report presents our findings arising from our audit of the Department of Natural Resources, Division of Environmental Quality, Solid Waste Management Program.



Thomas A. Schweich
State Auditor

The following auditors participated in the preparation of this report:

Deputy State Auditor: Harry J. Otto, CPA
Director of Audits: John Luetkemeyer, CPA
Audit Manager: Mark Ruether, CPA
In-Charge Auditor: Joyce Thomson
Audit Staff: Mariam Ahmedbani
Alex R. Prenger, M.S.Acct., CPA

Department of Natural Resources
Division of Environmental Quality - Solid Waste Management Program
Management Advisory Report - State Auditor's Findings

1. Fee Structure and Administrative Costs

The Department of Natural Resources (DNR), Solid Waste Management Program (SWMP) should perform a comprehensive review to determine if changes are needed in its fee structure and services could be provided more cost effectively. From our review, the tonnage fee charged appears high when compared to contiguous states, the operating costs as a percentage of allocated revenue incurred by the solid waste management districts is significant and varies considerably among the districts, and significant funding allocated to the solid waste management districts has accumulated in the Solid Waste Management Fund.

The main goal of the SWMP is to reduce the amount of solid waste generated in the state, and to provide solid waste management permitting, monitoring, and enforcement efforts to help prevent illegal dumping and other environmental problems. Solid waste management districts were established in 1990 as part of the state's solid waste management plan. The state is divided into 20 solid waste management districts which assist the DNR in implementing the state's plan, with an emphasis on diverting waste from landfills.

Funding and fee structure The SWMP and district funding is provided from the state's Solid Waste Management Fund which is primarily funded by tonnage fees remitted by landfills. Funding for the SWMP and districts is based on a formula set through legislation. After allocating \$800,000 annually to the Environmental Improvement and Energy Resources Authority and \$200,000 to districts receiving fewer funds than under a prior allocation formula, the remaining tonnage fees are allocated 39 percent to the SWMP and 61 percent to the districts. Each district's allocation is determined based on district population and the number of landfills located in the district. During the 2 years ended June 30, 2012, the SWMP spent approximately \$7.7 million for program operation and regulation, and the districts received approximately \$13 million for operations, plan implementation, and grants for waste reduction, reuse, and recycling programs.

We obtained information from the eight states which border Missouri, and the following chart summarizes the type of administration of the solid waste program (statewide or district) and the tonnage fees collected by each state:



Department of Natural Resources
 Division of Environmental Quality - Solid Waste Management Program
 Management Advisory Report - State Auditor's Findings

STATE	PROGRAM ADMINISTRATION	TONNAGE FEES
Arkansas*	Districts	\$2.50 per ton, \$.75 per compacted cubic yard, or \$.40 per un-compacted cubic yard, depending on the type of waste. Local fees may also be levied.
Illinois	Statewide	\$2.00 per ton or \$.95 per cubic yard for landfills which process over 150,000 cubic yards annually, and flat annual fees for landfills which process less than 150,000 cubic yards. Local fees may also be levied.
Iowa	Statewide	Planning areas with less than 25% diversion: \$4.75 per ton Planning areas over 25% diversion, under state average, and under 50%: \$3.65 per ton Planning areas over 25% diversion, over state average, and under 50%: \$3.65 per ton Planning areas over 25% diversion, over state average, and over 50%: \$3.25 per ton
Kansas*	Statewide	\$1.00 per ton
Kentucky*	Districts (one per county)	\$1.75 per ton
Nebraska*	Statewide	\$1.25 per ton
Oklahoma	Statewide	\$1.50 per ton, maximum of \$40,000 collected per landfill, then drops to \$1.25 per ton
Tennessee*	Districts (county/city level)	\$0.90 per ton in addition to any fee imposed by local government jurisdiction

* These states also collect annual landfill permit fees which Missouri does not impose.

As noted on the chart, five contiguous states administer solid waste management programs on a statewide basis and the other three states are divided into solid waste management districts or local government



Department of Natural Resources
Division of Environmental Quality - Solid Waste Management Program
Management Advisory Report - State Auditor's Findings

administration similar to Missouri. The operation and funding of these states' programs vary significantly from Missouri, so it was not possible to compare administrative and operating costs percentages for these states; however, only two states charge a tonnage fee higher than Missouri's tonnage fee of \$2.11.

District administrative costs

The SWMP tracks operating costs incurred by each district as a percentage of total state funding provided to each district. The operating costs are tracked to monitor compliance with Section 260.335, RSMo, which states that districts cannot spend more than 50 percent of allocated state funding on implementation of a solid waste management plan and district operations. The operating cost percentages for fiscal years 2012 and 2011 ranged from a low of 7 percent to a high of 50 percent, according to the SWMP. During the 2 years ended June 30, 2012, the districts spent \$4.2 million on administration and operations, or 32 percent of the \$13 million state funding provided to the districts.

SWMP personnel indicated these costs vary significantly from district to district based on a number of factors. For example, some districts contract with other local governments or regional planning agencies to operate the district while other districts hire employees. In addition, some districts pay a portion of operating costs with matching funds or local revenues while other districts provide no matching funds or local revenues.

Accumulated district funds

The amounts required by state law to be allocated to the solid waste management districts are more than needed for current operations, resulting in some districts accumulating significant reserves for future operations and grant programs. These funds remain on deposit in the Solid Waste Management Fund, and at June 30, 2012, the Solid Waste Management Fund balance of approximately \$10.3 million included \$7.6 million in unspent district allocations. The two largest districts had unspent funds of \$2.4 million (District L, St. Louis area) and \$1.3 million (District E, Kansas City area) at June 30, 2012. The other 18 districts had unspent funds at June 30, 2012, ranging from \$65,060 to \$697,232. The significant amount of unspent district funds suggests the solid waste tonnage fee is set at a rate higher than needed or the funding allocation formula needs revision.

It is difficult to compare Missouri's solid waste management program to other states. However, the high tonnage fee compared to contiguous states coupled with significant variations in administrative cost percentages among the districts and the existence of significant fund reserves within the Solid Waste Management Fund suggest the delivery of solid waste management services could be performed more cost effectively. A comprehensive review of the program would assist the legislature in determining if improvements can be made to improve the statewide delivery of solid waste management services. This should include a detailed review of the fee structure and funding allocation formula, significant variances in district administrative costs, and various delivery of services models used by other states.



Recommendation

The DNR perform a comprehensive review to determine the most cost effective method to deliver solid waste management services statewide, including whether the current tonnage fee can be reduced or the funding allocation formula should be revised.

Auditee's Response

In the 2013 Legislative Session, House Bill 28 was passed which established a Joint Committee on Solid Waste Management District Operations. The committee is to provide a report, including any recommended legislative changes, by December 31, 2013. The department will be available to provide information to the committee if the committee requests same.

2. District Audit Requirements

Audit requirements for solid waste districts are excessive and inefficient.

State laws require three separate audits for each solid waste management district. Section 260.325.10, RSMo, requires the districts to obtain financial statement audits annually or biannually, depending on the amount of revenues received by the district, and requires the DNR to conduct a performance audit of grants to each district at least once every 3 years. Section 29.380, RSMo, effective August 28, 2012, requires the State Auditor to conduct an audit of each solid waste management district and thereafter conduct audits of the districts as deemed necessary.

The SWMP provides regular oversight and monitoring of districts, including approval of all recycling and administrative grants awarded by the districts. Streamlined audit requirements coupled with effective oversight and monitoring procedures would result in a more efficient administration of the SWMP.

Recommendation

The DNR consider seeking legislation to streamline the audit requirements for solid waste management districts.

Auditee's Response

The department will consider and evaluate this recommendation.

Department of Natural Resources

Division of Environmental Quality - Solid Waste Management Program

Organization and Statistical Information

The Solid Waste Management Program is under the supervision of the Department of Natural Resources (DNR), 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. The primary source of funding is a fee collected when waste is disposed in Missouri's landfills, or when it is sent through a transfer station for disposal in another state. The fee is established by legislation and is currently \$2.11 per ton. This is the primary source of funding for the program. In addition, recycling projects are funded through funds passed on to the Environmental Improvement and Energy Resources Authority and Solid Waste Management Districts (districts). These districts were established by Section 260.305, RSMo. There are 20 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 DNR.

Sara Parker Pauley currently serves as the Director of the DNR, and Leanne Tippet Mosby currently serves as the Director of the Division of Environmental Quality.

Appendix A

Department of Natural Resources
 Division of Environmental Quality - Solid Waste Management Program
 Comparative Statement of Receipts, Disbursements, and Changes in Cash and Investments -
 Solid Waste Management Fund

	Year Ended June 30,	
	2012	2011
RECEIPTS		
Tonnage fees	\$ 11,292,335	11,047,524
Other	15,102	47,306
Total Receipts	<u>11,307,437</u>	<u>11,094,830</u>
DISBURSEMENTS		
District grants	7,512,971	5,565,564
Solid waste agency costs	3,895,927	3,834,614
Market development	554,322	660,681
Total Disbursements	<u>11,963,220</u>	<u>10,060,859</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	(655,783)	1,033,971
CASH AND INVESTMENTS, JULY 1	10,926,536	9,892,565
CASH AND INVESTMENTS, JUNE 30	\$ <u>10,270,753</u>	<u>10,926,536</u>

Appendix B

Department of Natural Resources
 Division of Environmental Quality - Solid Waste Management Program
 Comparative Statement of Appropriations and Expenditures

	Year Ended June 30,					
	2012			2011		
	Appropriation Authority	Expenditures	Lapsed Balances	Appropriation Authority	Expenditures	Lapsed Balances
SOLID WASTE MANAGEMENT FUND						
Solid Waste Management	\$ 15,545,026	8,367,837	7,177,189	14,435,633	6,226,245	8,209,388
Division of Geology and Land Survey Operations Personal Services	114,335	79,805	34,530	114,335	113,893	442
Division of Geology and Land Survey Operations Expenses and Equipment	10,061	9,748	313	10,061	10,061	0
Department Operations-Contract Audits Expenses and Equipment	92,064	17,834	74,230	22,834	5,000	17,834
Refund Accounts	1,165	0	1,165	1,165	0	1,165
Regional Offices Personal Services	381,673	359,640	22,033	474,673	375,939	98,734
Regional Offices Expenses and Equipment	134,969	45,422	89,547	134,969	32,832	102,137
Solid Waste Management Personal Services	1,496,738	1,197,928	298,810	1,503,238	1,178,967	324,271
Solid Waste Management Expenses and Equipment	494,496	97,973	396,523	474,377	129,947	344,430
Hazardous Waste Personal Services	10,996	10,895	101	10,996	10,606	390
Environmental Services Personal Services	45,975	30,705	15,270	45,975	44,447	1,528
Environmental Services Expenses and Equipment	11,348	3,306	8,042	11,348	3,554	7,794
Total Solid Waste Management Fund	\$ 18,338,846	10,221,093	8,117,753	17,239,604	8,131,491	9,108,113

Appendix C

Department of Natural Resources
 Division of Environmental Quality - Solid Waste Management Program
 Comparative Statement of Expenditures (from Appropriations)

		Year Ended June 30,				
		2012	2011	2010	2009	2008
Salaries and wages	\$	1,678,972	1,723,851	1,882,037	2,067,672	1,970,282
Travel, in-state		48,334	38,418	23,509	71,339	60,374
Travel, out-of-state		126	1,115	3,614	3,316	17,697
Fuel and utilities		246	384	412	352	317
Supplies		36,795	38,299	42,757	52,306	52,803
Professional development		15,635	41,380	11,152	47,317	34,316
Communication service and supplies		15,808	15,293	17,012	18,420	18,921
Services:						
Professional services		41,134	19,468	95,443	597,989	231,402
Housekeeping and janitorial		34	20	306	339	397
Maintenance and repair		8,969	11,304	11,669	12,749	12,337
Equipment:						
Office		3,069	716	1,612	2,256	6,822
Other		2,934	14,572	277	1,952	3,293
Debt service		0	0	0	0	3,900
Building lease payments		0	0	382	374	11,400
Equipment rental and leases		397	433	422	330	618
Miscellaneous expenses		803	1,775	391	2,373	1,160
Program distributions		8,367,837	6,224,463	7,782,466	9,151,780	8,994,625
Total Expenditures	\$	10,221,093	8,131,491	9,873,461	12,030,864	11,420,664