



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

“...The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.”

– Article IV, Section 53 of the Michigan Constitution

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Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit

*Solid Waste Disposal and Scrap Tire Program
Activities*

*Waste and Hazardous Materials Division
Department of Environmental Quality*

Report Number:
76-141-04

Released:
April 2005

The Waste and Hazardous Materials Division (WHMD) administers the Solid Waste and Scrap Tire Programs as prevention programs to protect the environment and the public's health. WHMD is responsible for the issuance of construction permits and operating licenses for solid waste disposal facilities and registrations for scrap tire haulers and collection sites. The Department of Environmental Quality (DEQ) reported that 62.6 million cubic yards of solid waste was disposed of in Michigan landfills in fiscal year 2002-03 and that Michigan generates approximately 9 million scrap tires each year.

Audit Objective:

To assess the effectiveness of WHMD's permitting and licensing processes for solid waste disposal facilities.

Audit Conclusion:

WHMD's permitting and licensing processes for solid waste disposal facilities were generally effective.

Reportable Condition:

WHMD did not ensure that solid waste disposal facilities obtained sufficient financial assurance prior to obtaining their annual operating licenses. Also, WHMD did not verify that landfill owners or operators deposited the correct amounts into their perpetual care fund accounts. (Finding 1)

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Audit Objective:

To assess the effectiveness of WHMD's efforts to evaluate the performance of its Solid Waste and Scrap Tire Programs.

Audit Conclusion:

WHMD was generally effective in its efforts to evaluate the performance of its Solid Waste and Scrap Tire Programs.

Reportable Conditions:

WHMD should continue its efforts to fully develop a continuous quality improvement process for monitoring and improving program effectiveness in protecting the environment and the public's health through proper management of solid waste (Finding 2).

WHMD did not ensure that district staff entered complete and accurate performance data into the Waste Data System (WDS) in a timely manner and maintained detailed supporting records (Finding 3).

WHMD did not ensure that WDS contained complete, accurate, and current data relating to scrap tire inventories. In addition, WHMD did not identify its pre-1991 scrap tire inventory on WDS. (Finding 4)

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Audit Objective:

To assess the effectiveness of WHMD's long-term planning for solid waste disposal.

Audit Conclusion:

WHMD's long-term planning for solid waste disposal was generally effective. Our report does not include any reportable conditions related to this audit objective.

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Audit Objective:

To assess the effectiveness of WHMD's registration process for scrap tire haulers and collection sites and monitoring efforts at potential collection sites.

Audit Conclusion:

WHMD's registration process for scrap tire haulers and collection sites and monitoring efforts at potential collection sites were generally effective.

Reportable Condition:

District staff did not inspect scrap tire haulers prior to the issuance of the annual registrations, in accordance with established procedures (Finding 5).

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Audit Objective:

To assess WHMD's effectiveness in safeguarding cash receipts at district offices.

Audit Conclusion:

WHMD was generally effective in safeguarding cash receipts at district offices.

Reportable Condition:

WHMD did not comply with State procedures for proper management control over cash receipts for solid waste construction permit and operating license fees (Finding 6).

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Agency Response:

Our audit report includes 6 findings and 8 corresponding recommendations. WHMD's preliminary response indicated that it agreed with 5 of the recommendations and partially agreed with 3 of the recommendations.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



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April 14, 2005

Mr. Steven E. Chester, Director
Department of Environmental Quality
Constitution Hall
Lansing, Michigan

Dear Mr. Chester:

This is our report on the performance audit of Solid Waste Disposal and Scrap Tire Program Activities, Waste and Hazardous Materials Division, Department of Environmental Quality.

This report contains our report summary; description of programs; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; and a glossary of acronyms and terms.

The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during the audit.

AUDITOR GENERAL

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GLOSSARY

Glossary of Acronyms and Terms

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Description of Programs

The Department of Environmental Quality's (DEQ's) Waste and Hazardous Materials Division (WHMD) administers a diverse number of prevention programs to protect the environment and the public's health through proper management of hazardous products; solid, liquid, medical, and hazardous waste; and radioactive materials. WHMD's responsibilities include management of the Solid Waste* and Scrap Tire* Programs:

a. Solid Waste Program

The Solid Waste Program is governed by Sections 324.11501 - 324.11550 of the *Michigan Compiled Laws* (Part 115 of the Natural Resources and Environmental Protection Act, i.e., Act 451, P.A. 1994). Through its Solid Waste Program, WHMD is responsible for the issuance of construction permits* and operating licenses* for municipal and industrial nonhazardous solid waste disposal facilities*, including landfills*, transfer stations*, and processing plants*. WHMD is also responsible for management of the solid waste disposal area financial assurance* program; administration of solid waste management planning and the Solid Waste Alternatives Grant Program; assistance to local communities in their recycling and composting activities; and compliance inspection, monitoring, and enforcement activities related to solid waste management.

As of August 25, 2004, 78 landfills, 67 transfer stations, and 24 processing plants were active and licensed by WHMD. WHMD was monitoring 67 sites for closure or postclosure. For fiscal year 2002-03, DEQ reported that 62.6 million cubic yards of solid waste was disposed of in Michigan landfills.

For fiscal year 2003-04, WHMD's Solid Waste Program was appropriated \$3,846,800 and had 51 full-time equated employees.

b. Scrap Tire Program

The Scrap Tire Program is governed by Sections 324.16901 - 324.16910 of the *Michigan Compiled Laws* (Part 169 of the Natural Resources and Environmental Protection Act, i.e., Act 451, P.A. 1994). Through its Scrap Tire Program, WHMD is responsible for the issuance of annual registrations* for scrap tire haulers* and

* See glossary at end of report for definition.

scrap tire collection sites* and the related compliance inspection and enforcement activities. WHMD is responsible for administration of the Scrap Tire Cleanup Grant Program, which was established in 1995. During fiscal year 2003-04, WHMD approved \$2.7 million in scrap tire cleanup grants to communities and private businesses for the cleanup of approximately 2.1 million scrap tires at 35 collection sites. WHMD is also responsible for the Scrap Tire Market Development Grant and the Scrap Tire End User Grant Programs, which began in 2004.

As of August 25, 2004, WHMD had recorded in its Waste Data System* 432 scrap tire sites* containing approximately 24.1 million scrap tires. DEQ reported that Michigan generates approximately 9 million scrap tires each year. As of August 25, 2004, there were 106 commercial and 167 noncommercial scrap tire haulers and 20 commercial and 9 noncommercial scrap tire collection sites registered with WHMD.

For fiscal year 2003-04, WHMD's Scrap Tire Program was appropriated \$915,000 and had 11 full-time equated employees.

WHMD's responsibilities are carried out by its central office located in Lansing and its eight district offices located throughout the State. The central office's functions primarily include financial management and program oversight; permit, license, and registration issuance; enforcement; and administrative support. The district offices' functions primarily include compliance review; on-site inspections; and engineering and environmental review during the application processes for permits, licenses, and registrations.

* See glossary at end of report for definition.

Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

Audit Objectives

Our performance audit* of Solid Waste Disposal and Scrap Tire Program Activities, Waste and Hazardous Materials Division (WHMD), Department of Environmental Quality (DEQ), had the following objectives:

1. To assess the effectiveness* of WHMD's permitting and licensing processes for solid waste disposal facilities.
2. To assess the effectiveness of WHMD's efforts to evaluate the performance of its Solid Waste and Scrap Tire Programs.
3. To assess the effectiveness of WHMD's long-term planning for solid waste disposal.
4. To assess the effectiveness of WHMD's registration process for scrap tire haulers and collection sites and monitoring efforts at potential collection sites.
5. To assess WHMD's effectiveness in safeguarding cash receipts at district offices.

Audit Scope

Our audit scope was to examine the program and other records related to the Waste and Hazardous Materials Division's solid waste disposal and Scrap Tire Program activities. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our audit scope did not include a review of the source reduction and recycling activities of DEQ. Those activities were reviewed in a separate performance audit conducted by the Office of the Auditor General and addressed in a report (#7611001) released in February 2002.

* See glossary at end of report for definition.

Audit Methodology

Our audit procedures, conducted from April through August 2004, included an examination of WHMD's records and activities related to solid waste disposal and the Scrap Tire Program primarily for the period October 1, 2002 through July 31, 2004.

We conducted a preliminary review of WHMD's operations to formulate a basis for defining the audit objectives and scope of audit. Our review included interviewing WHMD personnel; reviewing applicable laws, regulations, policies, procedures, and other reference materials; reviewing selected files, reports, and records; and obtaining a comprehensive understanding of WHMD's operations as they related to solid waste disposal and Scrap Tire Program activities.

We visited 4 of WHMD's 8 district offices: Cadillac, Grand Rapids, Lansing, and Southeast Michigan. We reviewed selected files and records maintained by these district offices relating to solid waste disposal and Scrap Tire Program activities and discussed the files and records with appropriate district personnel. We also interviewed district personnel to gain an understanding of the districts' practices.

To assess the effectiveness of WHMD's permitting and licensing processes for solid waste disposal facilities, we selected a sample of facilities and conducted a review of the files and other records during our central office review and district office visits. We discussed the files and WHMD procedures and practices with central and district office personnel.

To assess the effectiveness of WHMD's efforts to evaluate the performance of its Solid Waste and Scrap Tire Programs, we reviewed strategic plans, district work plans, and various management reports. We discussed WHMD's program evaluation processes with WHMD management and compared its processes to the elements of a comprehensive continuous quality improvement* process. We verified the accuracy of information recorded in WHMD's Waste Data System during our central office review and district office visits.

To assess the effectiveness of WHMD's long-term planning for solid waste disposal, we reviewed relevant legislation and developed an understanding of WHMD's use of the county solid waste management plans.

* See glossary at end of report for definition.

To assess the effectiveness of WHMD's registration process for scrap tire haulers and collection sites and monitoring efforts at potential collection sites, we selected a sample of haulers and sites and conducted a review of the files and other records during our central office review and district office visits. We discussed the files and WHMD procedures and practices with central and district office personnel. We also reviewed procedures and selected files at the central office related to the Scrap Tire Cleanup Grant Program.

To assess WHMD's effectiveness at safeguarding cash receipts at district offices, we developed an understanding and assessed the management control* during our district office visits. We reviewed solid waste disposal files and discussed procedures with district office personnel.

Agency Responses and Prior Audit Follow-Up

Our audit report includes 6 findings and 8 corresponding recommendations. WHMD's preliminary response indicated that it agreed with 5 of the recommendations and partially agreed with 3 of the recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require DEQ to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

We released our prior performance audit of the Waste Management Division, Bureau of Environmental Protection, Department of Natural Resources (#7514193), in September 1995. Within the scope of this audit, we followed up 5 of the 11 prior audit recommendations. DEQ had complied with 4 of the 5 prior audit recommendations. The other recommendation was partially rewritten for inclusion in this report.

* See glossary at end of report for definition.

COMMENTS, FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

PERMITTING AND LICENSING PROCESSES FOR SOLID WASTE DISPOSAL FACILITIES

COMMENT

Audit Objective: To assess the effectiveness of the Waste and Hazardous Materials Division's (WHMD's) permitting and licensing processes for solid waste disposal facilities.

Conclusion: We concluded that WHMD's permitting and licensing processes for solid waste disposal facilities were generally effective. However, our assessment disclosed a reportable condition* in the area of financial assurance and perpetual care funds (Finding 1).

FINDING

1. Financial Assurance and Perpetual Care Funds

WHMD did not ensure that solid waste disposal facilities obtained sufficient financial assurance prior to obtaining their annual operating licenses. Also, WHMD did not verify that landfill owners or operators deposited the correct amounts into their perpetual care fund accounts. As a result, the State could be liable for a portion of the costs to close, monitor, and maintain these facilities if they become financially insolvent.

Our review disclosed:

- a. WHMD did not always verify that solid waste disposal facilities obtained the required financial assurance or accurately calculated the amount of financial assurance identified on the operating license application. Of 20 files reviewed, 14 (70%) did not have documentation indicating that WHMD verified that the solid waste disposal facility obtained sufficient financial assurance or that WHMD recalculated the amount identified on the application for accuracy.
- b. WHMD did not verify that landfill owners or operators deposited the correct amount into their perpetual care fund accounts based on legislative formulas. During our review, we could not verify amounts because of insufficient information obtained or retained by WHMD.

* See glossary at end of report for definition.

- c. WHMD did not determine whether the formulas set by the Legislature and used to calculate financial assurance and perpetual care minimums were sufficient to allow the State to close, monitor, and maintain these facilities if they become financially insolvent.

Sections 324.11523 - 324.11524 of the *Michigan Compiled Laws* require the owner or operator of a solid waste disposal facility to obtain financial assurance prior to obtaining a license to operate. The amount of financial assurance required is based on the type and size of the facility, as outlined in the legislation.

In addition, Section 324.11525 of the *Michigan Compiled Laws* requires the owner or operator of a landfill to place money into a perpetual care fund based on the amount and type of waste disposed of in the landfill, as outlined in the legislation. The purpose of this requirement is to provide money to monitor and maintain the landfill site for 30 years after closing should the landfill owner or operator become financially insolvent. The perpetual care fund may be established as a trust fund or an escrow account and can also be used to demonstrate financial assurance.

RECOMMENDATIONS

We recommend that WHMD ensure that solid waste disposal facilities obtain sufficient financial assurance prior to obtaining their annual operating licenses.

We also recommend that WHMD verify that landfill owners or operators deposit the correct amounts into their perpetual care fund accounts.

AGENCY PRELIMINARY RESPONSE

WHMD partially agreed with the recommendations. WHMD responded that it maintains and follows a procedure that ensures that solid waste disposal facilities obtain financial assurance prior to issuance of their operating license (now every five years).

In response to our audit, where we determined that complete documentation did not appear in some of the files that were reviewed, WHMD investigated the matter and discovered that the staff person responsible for doing the final calculation and notifying the Financial Assurance Coordinator of the need for additional financial assurance was not consistently placing copies of the verification documentation in the file, but rather, was maintaining such documentation on his computer. WHMD

informed us that documentation will be placed in each solid waste disposal facility's file verifying that staff has determined that adequate financial assurance is being provided prior to issuance of an operating license.

Regarding verification that landfill owners or operators are depositing the correct amounts in their perpetual care fund accounts, WHMD informed us that it will (1) develop a procedure to require banks and trust companies holding perpetual care fund deposits to provide account details to include when deposits were made and the amount of the deposits; (2) annually compare the perpetual care fund deposit amounts with the landfill receipt reports to determine if the correct amount of perpetual care funds were deposited; (3) query each landfill to obtain information on the amount of waste disposed of during years when landfill receipt reports were not required; and (4) compare previous landfill receipt reports and disposal information for all landfills, calculate the amount of funds that should have been deposited in the perpetual care funds, compare with current balances, and if short, take appropriate action to require landfills to bring their perpetual care fund accounts up-to-date or obtain documentation that the required deposits were made.

EFFORTS TO EVALUATE PERFORMANCE OF PROGRAMS

COMMENT

Audit Objective: To assess the effectiveness of WHMD's efforts to evaluate the performance of its Solid Waste and Scrap Tire Programs.

Conclusion: **We concluded that WHMD was generally effective in its efforts to evaluate the performance of its Solid Waste and Scrap Tire Programs.** However, our assessment disclosed reportable conditions in the areas of a continuous quality improvement (CQI)* process, utilization of the Waste Data System (WDS), and the scrap tire inventory (Findings 2 through 4).

* See glossary at end of report for definition.

FINDING

2. CQI Process

WHMD should continue its efforts to fully develop a CQI process for monitoring and improving program effectiveness in protecting the environment and the public's health through proper management of solid waste. Without a fully developed CQI process, WHMD could not evaluate the actual performance of the Solid Waste and Scrap Tire Programs.

The State Legislature and the Governor have required, in various appropriations acts and in Executive Directive No. 1996-1, that State programs use quality improvement processes to manage the use of limited State resources. Also, Executive Directive No. 2001-3, which rescinded Executive Directive No. 1996-1 effective June 8, 2001, stated that it was a goal to increase efforts toward continuous improvement and ensure the implementation of quality and customer service management techniques.

A CQI process should include: performance indicators* for measuring outputs* and outcomes*; performance standards* or goals* that describe the desired level of outcomes based on management expectations, peer group performance, and/or historical data; a performance measurement system* to gather actual output and outcome data; a comparison of the actual data with desired outputs and outcomes; a reporting of the comparison results to management; and proposals of program changes to improve effectiveness and efficiency*.

WHMD implemented partial components of a CQI process. For example, WHMD developed annual strategic plans, which were incorporated into DEQ's overall strategic plan. These strategic plans outlined planned targets and initiatives, program enhancements, and ongoing program activities. Also, WHMD, including each of its eight district offices, annually developed work plans, which were monitored for completion by WHMD management on a semiannual basis. In addition, WHMD had implemented WDS in August 2002 as its performance measurement system to provide for a comprehensive database of information and program reporting. Further, WHMD management informed us that it used the employee evaluation process to help assess program effectiveness.

* See glossary at end of report for definition.

However, our audit disclosed:

- a. WHMD had not developed quantified or measurable performance standards or goals by which WHMD, DEQ management, and the Legislature could assess WHMD's program effectiveness and initiate changes to improve effectiveness. Performance standards or goals should describe the desired level of outcomes based on management expectations, peer group performance, and/or historical data.

Our review of the annual strategic plans disclosed that WHMD's identified planned targets and initiatives, program enhancements and ongoing program activities associated with achieving its mission* were not quantified or measurable. For example, in its fiscal year 2003-04 strategic plan, program enhancements included "improve the Department's compliance and enforcement capabilities" and "review permit and license programs for improvements and innovations." Ongoing activities included "provide excellent public service." WHMD had not developed a process to quantify or measure how it has improved compliance and enforcement capabilities or permit and license programs or how it has provided excellent public service.

- b. WHMD had not established outcome-based performance indicators.

Our review of WHMD's annual work plans for fiscal year 2003-04 (prepared by each of the eight district offices) disclosed that WHMD primarily measured outputs. Outputs are necessary to measure the level of products or services produced, such as the number or type of inspections conducted or the number of registrations or licenses processed. However, outcomes are also necessary for WHMD to evaluate its impact or effectiveness in protecting the environment and the public's health through proper management of solid wastes. As an example, outcome-based performance indicators could include the increase in rates of solid waste disposal facilities or scrap tire collection sites in compliance.

- c. WHMD did not ensure that performance indicators reported by its district offices through WDS were complete, accurate, and supported by detailed records. To be effective, a performance measurement system must provide

* See glossary at end of report for definition.

for accurate and reliable representation of performance. The specific results of our review are presented in Findings 3 and 4.

RECOMMENDATION

We recommend that WHMD continue its efforts to fully develop a CQI process for monitoring and improving program effectiveness in protecting the environment and the public's health through proper management of solid wastes.

AGENCY PRELIMINARY RESPONSE

WHMD agreed with the recommendation. WHMD responded that it will continue its efforts to fully develop a CQI process for monitoring and improving program effectiveness. To do so, as part of the fiscal year 2005-06 strategic plan, WHMD will develop outcome-based performance indicators such as compliance rates, percentage of complaints responded to within certain time frames, and timeliness of data entry. These will be evaluated for their usefulness in predicting outcome-based performance measures, and those determined to be competent indicators will be used to further establish a baseline for performance.

WHMD also noted that registrations for scrap tire haulers and collection sites are now handled using a standardized process and forms, resulting in improved quality to WHMD's registration process. For example, this has led to a smoother process and quicker turnaround times on registrations. WHMD also informed us that other program measurements for the Scrap Tire Program will be established in the fiscal year 2005-06 strategic plan, such as decreases in the number of noncompliant sites reported in WDS and a decrease in the number of pre-1991 tires remaining in stockpiles throughout the State.

FINDING

3. Utilization of WDS

WHMD did not ensure that district staff entered complete and accurate performance data into WDS in a timely manner and maintained detailed supporting records.

WHMD developed and implemented WDS in August 2002 to provide for a comprehensive database of information and program reporting. Without complete, accurate, and timely data, management and other WDS users cannot be sure of

the reliability of the information they are obtaining from WDS. Further, without accurate and reliable data, WDS cannot be effective for management in monitoring and assessing the overall effectiveness of the programs.

We reviewed the completeness, accuracy, and timeliness of information entered into WDS by district staff at four district offices. We noted:

- a. District staff did not enter performance data into WDS in a timely manner in accordance with written procedures.

We examined district office files and noted:

- (1) We reviewed a sample of 25 solid waste construction permit and operating license applications relating to 22 solid waste disposal facilities. We noted 17 instances (68%) in which district staff did not enter the application into WDS within 24 hours of receipt. District staff entered the 17 applications from 3 to 34 days after receipt.

WHMD's WDS Solid Waste Data Entry Manual and Operational Memorandum 115-7, dated May 10, 2002, require district staff to enter applications for construction permits and operating licenses into WDS within 24 hours of receipt.

- (2) We reviewed the timeliness of WHMD's entry of inspections into WDS for 23 solid waste disposal facilities. We determined that district staff did not enter the inspections within 14 days for 95 (48%) of 196 inspections. District staff entered the 95 inspections from 15 to 348 days after the dates of inspection.

Further, we reviewed the timeliness of WHMD's entry of inspections into WDS for 6 scrap tire haulers, 12 scrap tire collection sites, and 14 unregistered scrap tire sites. We determined that district staff did not enter the inspections within 14 days for 12 (27%) of 44 inspections. District staff entered the 12 inspections from 19 to 140 days after the dates of inspection.

WHMD's WDS Compliance Data Entry Manual states that inspection and related data must be entered in the database within 14 days of the date of the inspection.

- b. District staff did not ensure that all inspections conducted were entered into WDS and that inspections entered into WDS were documented in and supported by detailed records. We noted:
 - (1) District staff did not enter into WDS 15 (9%) of a sample of 167 solid waste inspections for 20 solid waste disposal facilities. Also, district staff did not document in the detailed records 67 (40%) inspection checklist forms and 92 (55%) follow-up letters. District staff are required to complete an inspection checklist form and a follow-up letter communicating the results of the inspection and to include the form and letter in the detailed records.
 - (2) District staff did not enter into WDS 6 (14%) of a sample of 44 scrap tire inspections for 6 scrap tire haulers, 12 scrap tire collection sites, and 14 unregistered scrap tire sites. Also, district staff did not document in the detailed records the inspection checklist forms for 10 (23%) scrap tire inspections.
- c. WHMD did not ensure that the correct district office was identified on WDS as being the district office responsible for the solid waste disposal facility or scrap tire hauler or collection site.

During our review, we noted 1 instance in the Solid Waste Program and 3 instances in the Scrap Tire Program in which the district office identified on WDS was not the correct district office responsible for compliance review; on-site inspections; and engineering and environmental review during the application processes for permits, licenses, and registrations.

- d. WHMD needs to continue its efforts to identify and consolidate multiple records for the same solid waste disposal facility or scrap tire hauler or collection site in WDS.

Although we did not design our tests to detect all instances of multiple records in WDS, our review did disclose 1 instance in the Solid Waste Program and

4 instances in the Scrap Tire Program in which there were multiple records in WDS for the same facility or site. In each of the instances, we noted that relevant data for permits, licenses, registrations, or inspections was included in each of the multiple records, requiring a consolidation of the multiple records to gather a complete record for the facility or site.

WHMD's WDS Compliance Data Entry Manual provides procedures for WDS users, including district staff and district supervisors, on the proper consolidation of multiple records.

Some district staff informed us that they felt that WDS was burdensome and that they had not received sufficient training on the use of WDS. In addition, recent transitions in the district field coordinator position could have contributed to these issues because of a reduced level of consistent oversight of district activities.

RECOMMENDATION

We recommend that WHMD ensure that district staff enter complete and accurate performance data into WDS in a timely manner and maintain detailed supporting records.

AGENCY PRELIMINARY RESPONSE

WHMD agreed with the recommendation. WHMD responded that it has initiated a subcommittee to look at issues related to WDS data entry. This subcommittee will evaluate methods to better monitor that district staff enter complete and accurate performance data into WDS in a timely manner and maintain detailed supporting records. Such means may include routine auditing of WDS; closer scrutiny of timeliness by individual staff; a review of the appropriateness of the data entry time frames (i.e., whether the deadlines are reasonable based on staff workloads) contained in the procedures; and other means.

FINDING

4. Scrap Tire Inventory

WHMD did not ensure that WDS contained complete, accurate, and current data relating to scrap tire inventories. In addition, WHMD did not identify its pre-1991 scrap tire inventory on WDS.

Without complete, accurate, and current data, WHMD management cannot accurately report on the scrap tire inventories in the State or effectively monitor and assess the overall effectiveness of the Scrap Tire Program, including progress toward meeting the legislative deadline for the cleanup of pre-1991 scrap tires.

WHMD generates the scrap tire inventory report from WDS. WHMD uses the report to provide current scrap tire data in its annual Michigan DEQ Environmental Quality Report and the biennial State of Michigan's Environment joint report with the Department of Natural Resources.

Section 324.16908(2)(c) of the *Michigan Compiled Laws* states that DEQ shall use money from the Scrap Tire Regulatory Fund for the cleanup or collection of abandoned scrap tires and scrap tires at collection sites. Priority for funding shall be given to collection sites in which the scrap tires were accumulated prior to January 1, 1991 (pre-1991) and to collection sites that represent an imminent threat to the environment or to the public's health, safety, or welfare. DEQ shall make every effort to ensure that all abandoned scrap tires accumulated at collection sites prior to January 1, 1991 are cleaned up or collected by September 30, 2009.

We compared the inventory records from district office inspections for 31 scrap tire haulers, scrap tire collection sites, and unregistered scrap tire sites to the scrap tire inventory report as of June 4, 2004. We noted:

- a. In 11 instances (35%), the inspection identified an estimated scrap tire count that differed from the scrap tire inventory report, including 6 instances in which

the site and the estimated scrap tire count were not listed on the scrap tire inventory report:

Inspection	Date of Inspection	Estimated Scrap Tire Count		Difference	Site Listed on the Scrap Tire Inventory Report?
		Per Inspection	Per Scrap Tire Inventory Report		
1	03/03/2004	30,000	90,000	(60,000)	Yes
2	02/27/2004	30,000	3,500	26,500	Yes
3	02/11/2004	500	0	500	No
4	01/12/2004	108,000	200,000	(92,000)	Yes
5	11/26/2003	5,000	0	5,000	No
6	10/24/2003	15,670	100,000	(84,330)	Yes
7	07/31/2003	10,000	0	10,000	No
8	10/28/2002	32,400	20,000	12,400	Yes
9	12/09/1998	60,000	0	60,000	No
10	10/27/1998	406	0	406	No
11	10/27/1998	298	0	298	No
		<u>292,274</u>	<u>413,500</u>	<u>(121,226)</u>	

Staff at one district office informed us that the inventory entered into WDS for several unregistered sites in the district was an arbitrary number that was one scrap tire less than that which met the definition of a collection site, even though district staff knew the actual scrap tire inventory was much lower for these sites.

- b. The sites with pre-1991 scrap tires and their inventories were not identified on the scrap tire inventory report. We were informed by WHMD management that the pre-1991 scrap tire inventory was generated each year through a manual process of compiling information obtained from each of the eight district offices, using on-site inspection data, 1992 scrap tire collection site registration applications, aerial photos, and local government records.

RECOMMENDATIONS

We recommend that WHMD ensure that WDS contains complete, accurate, and current data relating to scrap tire inventories.

We also recommend that WHMD identify its pre-1991 scrap tire inventory on WDS.

AGENCY PRELIMINARY RESPONSE

WHMD agreed with the recommendations. WHMD responded that, as part of the fiscal year 2005-06 strategic plan, WHMD will ensure that pre-1991 inventories are added into WDS as a data entry field (pending available funding for database modifications) and ensure that all scrap tire collection sites have updated inventory information put into WDS based on current inspections. Inventory information will be updated with each inspection entered, and the pre-1991 inventories will be updated at least once per year after a Scrap Tire Cleanup Grant cycle is completed.

LONG-TERM PLANNING FOR SOLID WASTE DISPOSAL

COMMENT

Audit Objective: To assess the effectiveness of WHMD's long-term planning for solid waste disposal.

Conclusion: We concluded that WHMD's long-term planning for solid waste disposal was generally effective. Our report does not include any reportable conditions related to this audit objective.

REGISTRATION PROCESS FOR SCRAP TIRE HAULERS AND COLLECTION SITES

COMMENT

Audit Objective: To assess the effectiveness of WHMD's registration process for scrap tire haulers and collection sites and monitoring efforts at potential collection sites.

Conclusion: We concluded that WHMD's registration process for scrap tire haulers and collection sites and monitoring efforts at potential collection sites were generally effective. However, our assessment disclosed a reportable condition in the area of the registration process for scrap tire haulers (Finding 5).

FINDING

5. Registration Process for Scrap Tire Haulers

District staff did not inspect scrap tire haulers prior to the issuance of the annual registrations, in accordance with established procedures.

Without inspections, WHMD and the district offices could not be sure that scrap tire haulers were in compliance with scrap tire regulations and were hauling scrap tires to and from only legal scrap tire collection sites. In addition, they could not be sure that scrap tire haulers were maintaining tire accumulations within legal limits of the scrap tire regulations.

Section 324.16905 of the *Michigan Compiled Laws* requires scrap tire haulers to annually register with DEQ. It also establishes the requirements for scrap tire haulers, including record maintenance, availability of the records to DEQ, and legal disposal of scrap tires.

Our review of 30 annual registrations for 17 scrap tire haulers, for the period October 1, 2002 through June 4, 2004, at four district offices disclosed:

- a. District staff did not perform inspections of the scrap tire haulers for 21 (70%) of the annual registrations or document that they used other methods to verify the accuracy of information provided by the applicant and the applicant's compliance with scrap tire regulations, as shown in the following table:

District Office	Number of Registrations		Percentage With No Inspection
	Reviewed	With No Inspection	
1	6	6	100%
2	8	7	88%
3	8	7	88%
4	8	1	13%
	<u>30</u>	<u>21</u>	70%

WHMD requires district staff to verify the accuracy of information provided by an applicant and to ensure compliance with the scrap tire regulations through inspection or other contact with the sites listed on the application within 30 days of receipt of the registration application from the WHMD central office.

- b. For the 9 instances in which an inspection was conducted, district staff did not perform their inspection of the scrap tire hauler prior to issuance of the annual registration for 3 (33%) of the 9 registrations. In each of the 3 inspections, district staff noted that the scrap tire hauler was not in compliance with the scrap tire regulations. District staff conducted the 3 inspections from 77 to 265 days after receipt of the registration application from the WHMD central office.

We were informed by WHMD management that scrap tire haulers should be inspected prior to issuance of their annual registration and that WHMD had developed an inspection form to be used by the district offices during the inspection of scrap tire haulers.

RECOMMENDATION

We recommend that district staff inspect scrap tire haulers prior to the issuance of the annual registrations, in accordance with established procedures.

AGENCY PRELIMINARY RESPONSE

WHMD partially agreed with the recommendation. WHMD responded that as part of the fiscal year 2005-06 strategic plan, WHMD will revise the existing scrap tire registration process to (1) verify that field inspectors have either inspected scrap tire haulers or verified hauler application information by other means as described below and (2) verify that staff enters the inspection (or other verification) into WDS before the registration is acted upon. As indicated, the procedures allow for verifying hauler registration application information by other means, and when competing demands prevent staff from conducting an inspection, other means may be used to allow issuance of the registration (i.e., telephone contact with the registrant). WHMD management will seek to minimize use of this alternative to the greatest extent possible. If other means are used to verify application information, staff will properly document the method used.

SAFEGUARDING OF CASH RECEIPTS AT DISTRICT OFFICES

COMMENT

Audit Objective: To assess WHMD's effectiveness in safeguarding cash receipts at district offices.

Conclusion: We concluded that WHMD was generally effective in safeguarding cash receipts at district offices. However, our assessment disclosed a reportable condition in the area of solid waste permit and license fees (Finding 6).

FINDING

6. Solid Waste Permit and License Fees

WHMD did not comply with State procedures for proper management control over cash receipts for solid waste construction permit and operating license fees.

Proper management control is necessary to reduce the risk that financial resources are lost or misused.

WHMD processed solid waste permit and license fees totaling \$551,000 for the period October 1, 2002 through August 16, 2004.

We reviewed the handling of cash receipts for solid waste permit and license fees at four district offices. We reviewed the processing of fees related to 28 permit and license applications for 23 solid waste disposal facilities, totaling \$125,375. The fees submitted with the applications in our review ranged from \$500 to \$30,000. We noted:

- a. District staff did not deposit checks timely upon receipt. District staff held the checks after receipt for 2 to 34 calendar days before sending the checks to WHMD's central office in Lansing. WHMD central office staff held the checks for an additional 1 to 8 calendar days until they were deposited.
- b. District staff did not maintain a log of cash receipts for permit and license fees that were received.
- c. District staff did not restrictively endorse checks immediately upon receipt. District staff mailed the checks to WHMD's central office, where they were then restrictively endorsed.
- d. District staff had not developed consistent procedures for holding cash receipts at district offices. As a result, we could not be sure that district staff always maintained checks in a secure location.

The State of Michigan Department of Management and Budget Administrative Guide procedure 1210.04 states that cash received by agencies must be deposited with the State Treasurer or in a State Treasurer's account at a commercial bank on the day of receipt or no later than the close of business the following day. In addition, Department of Management and Budget Administrative Guide procedure 1270.02 states that cash receipts must be recorded in a cash log and that any checks must be restrictively endorsed immediately upon receipt. Also, the cash receipts must be stored in a secure location, (a safe, a locked file cabinet, etc.) until they are deposited.

RECOMMENDATION

We recommend that WHMD comply with State procedures for proper management control over cash receipts for solid waste construction permit and operating license fees.

AGENCY PRELIMINARY RESPONSE

WHMD agreed with the recommendation. WHMD responded that, effective October 1, 2004, WHMD implemented procedures (Handling of Solid Waste Operating Licenses and Construction Permit Fee Checks) for the handling of checks received in WHMD district offices for solid waste operating licenses and construction permit fees. WHMD informed us that these procedures are consistent with the Department of Management and Budget's cash handling procedures and require checks to be deposited upon receipt. A draft policy and procedures document is in the process of being finalized by WHMD.

GLOSSARY

Glossary of Acronyms and Terms

continuous quality improvement (CQI)	A process that aligns the vision and mission of an organization with the needs and expectations of internal and external customers. It normally includes a process to improve program effectiveness and efficiency by assessing performance indicators that measure outputs and outcomes related to the program vision, mission, goals, and objectives.
DEQ	Department of Environmental Quality.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical with the minimum amount of resources.
financial assurance	The mechanisms, such as bonds or letters of credit, used by solid waste disposal facilities to demonstrate that they have the funds necessary to meet the cost of closure, postclosure maintenance and monitoring, and corrective action.
goals	The agency's intended outcomes or impacts for a program to accomplish its mission.
landfill	A facility that must be permitted and licensed by WHMD as either a type II or a type III landfill. A type II landfill is a municipal landfill that can accept virtually any nonhazardous solid waste for disposal. A type III landfill is a construction and demolition landfill or a special use landfill for a particular solid waste.
license	An operating license obtained from WHMD by a person proposing the operation of a solid waste disposal facility in accordance with Part 115 of the Natural Resources and Environmental Protection Act, i.e., Act 451, P.A. 1994.
management control	The plan of organization, methods, and procedures adopted by management to provide reasonable assurance that goals

are met; resources are used in compliance with laws and regulations; valid and reliable data is obtained and reported; and resources are safeguarded against waste, loss, and misuse.

mission	The agency's main purpose or the reason that the agency was established.
outcomes	The actual impacts of the program.
outputs	The products or services produced by the program.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
performance indicators	Information of a quantitative or qualitative nature used to assess achievement of goals and/or objectives.
performance measurement system	A system for capturing and processing data to determine if the program is achieving its goals.
performance standard	A desired level of output or outcome.
permit	A construction permit obtained from WHMD by a person proposing the establishment of a solid waste disposal facility in accordance with Part 115 of the Natural Resources and Environmental Protection Act, i.e., Act 451, P.A. 1994.
processing plant	A facility used to process solid waste, where the material brought to the site is intended to be separated for salvage or disposal or both. Processing plants must be permitted and licensed by WHMD.

registration	An annual registration obtained from WHMD by a scrap tire hauler or a scrap tire collection site in accordance with Part 169 of the Natural Resources and Environmental Protection Act, i.e., Act 451, P.A. 1994.
reportable condition	A matter that, in the auditor's judgment, represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.
scrap tire	A tire that is no longer being used for its original intended purpose, including, but not limited to, a used tire, a reusable tire casing, or portions of tires. An inflated tire that is used to support a stationary vehicle is not considered to be a scrap tire.
scrap tire collection site	<p>A site other than a solid waste disposal facility, a racecourse, or a feed storage location (as defined in Section 324.16901 of the <i>Michigan Compiled Laws</i>):</p> <ol style="list-style-type: none"> a. Where 500 or more scrap tires are accumulated and the site is not associated with a retail operation, an automotive recycler, or a commercial contractor. b. Where 1,500 or more scrap tires are accumulated by a retailer who is not associated with an automotive recycler. c. Where 2,500 or more scrap tires are accumulated by an automotive recycler. d. Where more than 150 cubic yards of scrap tire processed material is accumulated by a commercial contractor that is authorized to use the scrap tire processed material as an aggregate replacement in a manner approved by WHMD.

scrap tire hauler	A person who, as part of a commercial business, transports scrap tires. Except as provided in Section 324.16901 of the <i>Michigan Compiled Laws</i> , a person who transports more than 7 scrap tires in any truckload is considered to be in the commercial business of transporting scrap tires.
scrap tire site	A site that has scrap tires but may not necessarily meet the definition of scrap tire collection site.
solid waste	Generally, nonhazardous discarded material, including, but not limited to, garbage, rubbish, and solid municipal, commercial, and industrial waste. A more specific definition is included in Section 324.11506 of the <i>Michigan Compiled Laws</i> , which also identifies exclusions, such as human body waste, medical waste, and liquid waste.
solid waste disposal facility	A facility that is used to dispose of municipal and industrial nonhazardous solid waste, which includes landfills, transfer stations, and processing plants.
transfer station	A facility used for the rehandling or storage of solid waste incidental to the transportation of the solid waste but not located at the site of generation or the site of disposal of the solid waste. Transfer stations must be permitted and licensed by WHMD if the site handles 200 cubic yards or more of uncompacted waste per day or the site receives waste from vehicles with mechanical compaction devices.
Waste Data System (WDS)	The comprehensive database and management information system that WHMD uses to record and monitor activities related to the Solid Waste and Scrap Tire Programs.
WHMD	Waste and Hazardous Materials Division.

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