

Office of the Auditor General
Performance Audit Report

**Medical Waste, Scrap Tire,
and Solid Waste Programs**
Office of Waste Management and Radiological Protection
Department of Environmental Quality

February 2016

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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Report Summary

*Performance Audit
 Medical Waste, Scrap Tire, and Solid Waste
 Programs
 Office of Waste Management and
 Radiological Protection (OWMRP)
 Department of Environmental Quality*

Report Number:
 761-0330-15

Released:
 February 2016

OWMRP administers the Medical Waste, Scrap Tire, and Solid Waste Programs to protect the environment and the public's health. OWMRP issues nearly 15,300 registration certificates to medical waste-producing facilities and enforces proper disposal. OWMRP also registers scrap tire haulers and collection sites, administers scrap tire grants, and performs inspections and enforcement activities. In addition, OWMRP issues construction permits and operating licenses and completes inspections for solid waste disposal facilities, including landfills, transfer stations, and processing plants. OWMRP expended \$8.4 million in fiscal year 2015 for these activities.

Audit Objective			Conclusion
Objective #1: To assess the effectiveness of OWMRP's efforts to ensure that medical waste producers are registered and disposing of medical waste properly.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
OWMRP should continue to expand its pilot program to include follow-up inspections of noncompliant facilities potentially resulting in receipt of additional registration fees from unregistered medical waste-producing facilities (<u>Finding #1</u>).		X	Agrees
Registration fees alone will not cover OWMRP's cost of registering and inspecting medical waste-producing facilities if it continues to expand its pilot program for medical waste grants (<u>Finding #2</u>).		X	Neither agrees nor disagrees

Audit Objective			Conclusion
Objective #2: To assess the sufficiency of OWMRP's process for awarding scrap tire grants.			Sufficient
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
OWMRP did not retain documentation of selection process results for grant awards, including evaluations for 77% of selected scrap tire grant applications (<u>Finding #3</u>).		X	Agrees

Audit Objective			Conclusion
Objective #3: To assess the effectiveness of OWMRP's efforts to monitor projects funded with scrap tire grants.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
OWMRP should ensure that scrap tire policies and grant application forms accurately reflect allowable costs for applicant eligibility and reimbursement requirements. Improved guidance on allowable costs could encourage eligible applicants to apply for grant funding and also reduce inappropriate reimbursement requests (Finding #4).		X	Agrees
OWMRP made final scrap tire grant payments totaling \$2.0 million without documenting inspections or preparing applicable forms as required by grant agreements (Finding #5).		X	Agrees

Audit Objective			Conclusion
Objective #4: To assess OWMRP's compliance with selected laws, policies, and procedures related to its Scrap Tire and Solid Waste Programs.			Complied, with exceptions
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
OWMRP did not ensure the timely and complete input of scrap tire and solid waste information into the Waste Data System to allow proper management oversight (Finding #6).		X	Agrees
OWMRP district staff did not always inspect and document that they inspected scrap tire haulers and collection sites prior to the issuance of annual registrations. Inspections confirm the accuracy of information reported to OWMRP (Finding #7).		X	Agrees
OWMRP did not perform some solid waste site inspections as required by statute to ensure that transfer stations and processing plants properly dispose of solid waste. Inspections were not completed in 82 (37%) of 220 instances (Finding #8).		X	Agrees

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

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Doug A. Ringler, CPA, CIA
Auditor General

February 18, 2016

Mr. Keith Creagh, Director
Department of Environmental Quality
Constitution Hall
Lansing, Michigan

Dear Mr. Creagh:

I am pleased to provide this performance audit report on the Medical Waste, Scrap Tire, and Solid Waste Programs, Department of Environmental Quality.

We organize our findings and observations by audit objective. Your agency provided preliminary responses to the recommendations at the end of our fieldwork. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and submit it within 60 days of the date above to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

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

Sincerely,

Doug Ringler
Auditor General

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AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

REGISTERING MEDICAL WASTE PRODUCERS AND ENSURING PROPER DISPOSAL OF MEDICAL WASTE

BACKGROUND

The Office of Waste Management and Radiological Protection (OWMRP) is responsible for registering certain producers of medical waste* and regulating the generation, storage, treatment, and disposal of medical waste. OWMRP's goal is to safeguard public health by preventing human exposure to physical injury or contraction of communicable diseases due to the improper management of potentially infectious medical waste. The regulations also serve to protect Michigan's environment and natural resources from degradation.

AUDIT OBJECTIVE

To assess the effectiveness* of OWMRP's efforts to ensure that medical waste producers are registered and disposing of medical waste properly.

CONCLUSION

Moderately effective.

FACTORS IMPACTING CONCLUSION

- Receiving only 4 formal incident reports during fiscal years 2013 and 2014 reflects the effective prevention measures by OWMRP.
- OWMRP contracted with 9 local health departments (LHDs) to perform 615 inspections of medical waste producers* in fiscal year 2014 and 260 inspections in fiscal year 2015. OWMRP expanded the review to include unregistered medical waste producers, and the LHDs identified 243 facilities that did not register but were producing medical waste.
- OWMRP was proactive in its attempts to renew all expired medical waste registrations.
- Reportable conditions* related to the need for follow-up inspections of noncompliant facilities (Finding #1) and insufficient registration fees (Finding #2).

* See glossary at end of report for definition.

FINDING #1

Expansion of pilot program may help ensure proper handling of medical waste.

OWMRP should continue to expand its pilot program to include follow-up inspections of noncompliant facilities potentially resulting in additional registration fees from unregistered medical waste-producing facilities.

To increase awareness about the proper disposal of medical waste and to help ensure the health and safety of employees disposing of medical waste, OWMRP implemented a pilot program and entered into grant agreements with 9 LHDs in fiscal year 2014 to perform inspections of registered medical waste-producing facilities. OWMRP worked with three other State departments to develop a list of facilities that might need to register as a medical waste-producing facility. Also, OWMRP expanded the LHD grant agreements for fiscal year 2015 to include inspections of those facilities. OWMRP paid the 9 LHDs a total of \$61,500 and \$61,300 during fiscal years 2014 and 2015, respectively, to inspect registered and unregistered facilities.

Our review disclosed:

- a. OWMRP received copies of all inspection forms from the LHDs at the completion of the award period. We selected inspection forms completed by 5 of the 9 LHDs for 120 of the 875 registered and 64 of the 243 unregistered facilities. We noted:
 - (1) Forty-six (38%) of the 120 registered facilities did not have a medical waste management plan on file; did not train staff on the proper disposal of medical waste; or did not properly package, store, or label medical waste.
 - (2) Twenty-one (33%) of the 64 unregistered facilities had not registered with OWMRP as of August 31, 2015, even though the LHDs had provided the facilities with information on how to register as a medical waste-producing facility. Depending on the fee associated with the facility type, OWMRP did not pursue the collection of fee revenue ranging from \$1,100 to \$1,700 for the 21 facilities.

OWMRP plans to continue operating the pilot program in fiscal year 2016, using the LHDs to inspect registered and unregistered medical waste-producing facilities and introducing a new requirement for the LHDs to follow up with all noncompliant facilities identified from previous inspections.

- b. OWMRP identified 1,589 facilities that did not renew their registrations. We selected 50 of these facilities and determined that 35 (70%) appeared to still be in operation. OWMRP mails registration renewal invoices to all medical waste-producing facilities whose registrations are set to expire; however, OWMRP could also include the follow-up of these facilities in its contract with the LHDs.

Registration fees that could be collected from these 35 facilities totaled \$4,100. OWMRP should conduct on-site visits or other procedures to verify that the facilities are still producing medical waste and are registered.

RECOMMENDATION

We recommend that OWMRP expand its pilot program to include follow-up inspections of noncompliant facilities.

**AGENCY
PRELIMINARY
RESPONSE**

OWMRP provided us with the following response:

OWMRP agrees with this recommendation. This audit only covered phase 1 and 2 of the planned pilot program. The final phase, year 3, began in fiscal year 2016 with each of the 3 pilot phases being a building block upon the previous year's efforts. OWMRP plans to develop and convene a diverse stakeholders' workgroup after the completion of the pilot program to review the Medical Waste Regulatory Program and the LHD grant pilot program. The recommendations from this workgroup will help shape the future of the program including potential changes in legislation.

FINDING #2

Registration fees insufficient if OWMRP continues to expand inspections of medical waste-producing facilities.

Registration fees alone will not be sufficient to cover OWMRP's cost of registering and inspecting medical waste-producing facilities if it continues to expand its pilot program for medical waste grants.

During fiscal year 2014, OWMRP implemented the pilot program with 9 LHDs to inspect registered medical waste-producing facilities. In fiscal year 2015, OWMRP expanded the program to include LHD inspections of unregistered medical waste-producing facilities. The program was successful in identifying registered facilities that were not in compliance with the Medical Waste Regulatory Act and unregistered facilities that should be registered. OWMRP plans to expand the program to include all LHDs and the inspections to include every medical waste-producing facility in the State every three years.

Registration fees have not changed in 25 years.

Medical waste registration fees have not changed in 25 years. Sections 333.13813 and 333.13815 of the *Michigan Compiled Laws* established the registration fees for each type of medical waste-producing facility at the onset of the Medical Waste Program in 1990:

Summary of Registration Fees by Facility Type

Type of Medical Waste-Producing Facility	As of September 30, 2014		Registration Fee Required Every Three Years
	Number of Registrants	Percent of Registrants	
Laboratories and hospitals with 150 or more beds	132	1%	\$150
Private practice offices with 4 or more licensees	1,345	9%	\$ 80
Private practice offices with fewer than 4 licensees	9,001	59%	\$ 50
All other facilities (e.g., outpatient clinics, tattoo/body art facilities, nursing homes, mortuaries, pharmacies, and hospitals with fewer than 150 beds)	4,788	31%	\$ 75
Total	15,266	100%	

Registration fees were significantly lower than 3 other states.

Compared with 6 other states, Michigan's medical waste registration fees were significantly lower than 3 other states:

Comparison of Registration Fees and Inspection Requirements

State	Renewal Period	Annual Fee	Initial Inspection Required?	Annual Inspections Required?
West Virginia	Annually	\$25 - \$5,000	Yes	Yes, for large producers (over 50 pounds) of waste
Tennessee	Annually	\$800 - \$2,200	Yes	No, periodic
Nebraska	Annually	\$50 - \$1,950	Yes	No, optional
Florida	Annually	\$85	Yes	Yes
Wisconsin	Annually	\$55	Yes	No, periodic
Michigan	Every 3 years	\$17 - \$50*	No	No
Ohio	Every 3 years	\$47*	No	No, unless waste is treated on site, then quarterly.

* Annualized three-year fee.

During fiscal year 2015, OWMRP reimbursed the LHDs \$150 for each inspection; however, OWMRP received only between \$50 and \$80 for the three-year registration from 99% of the registered facilities. The cost of the inspections are not being offset by the revenue collected.

OWMRP could increase its revenue to cover the cost of the program by:

- Requesting a legislative change to increase fee amounts.
- Assessing fines and late fees for facilities that fail to register.
- Reevaluating the inspection reimbursement rate paid to the LHDs.
- Registering unlicensed facilities (see Finding #1).

Expanding the program to include inspections of registered and unregistered facilities will help ensure that medical waste-producing facilities safely handle and dispose of medical waste. However, OWMRP should ensure that it earns sufficient revenue to cover the cost of the program.

RECOMMENDATION

We recommend that OWMRP consider seeking amendatory legislation to adjust its fee structure to cover the cost of registering and inspecting all medical waste-producing facilities.

**AGENCY
PRELIMINARY
RESPONSE**

OWMRP provided us with the following response:

OWMRP neither agrees nor disagrees with this recommendation. Since its inception, the Medical Waste Program has been a self-reporting registration and awareness program, geared toward addressing issues related to inappropriately disposed of medical waste affecting the general public. The pilot program with LHDs, identified in this audit, was initiated to increase the Medical Waste Program's outreach and compliance in a stepwise fashion. OWMRP plans to develop and convene a diverse stakeholders' workgroup in the current fiscal year to review the Medical Waste Regulatory Program and the LHD grant pilot program. The recommendations from this workgroup will help shape the future of the program including potential changes in legislation to address the current fee structure.

AWARDING SCRAP TIRE GRANTS

BACKGROUND

The Legislature appropriated \$3.5 million per year for fiscal years 2013 through 2015 for scrap tire* grants. OWMRP awards reimbursement grants to fund the cleanup or collection of abandoned scrap tires and scrap tires at collection sites and to fund the development of increased markets to provide for a new or increased use for scrap tires. The amount of funding for scrap tire grants is limited, yet the demand for these grants is generally greater than the funding available. The process for awarding the market development grants is highly competitive and the applications must be prioritized based on how well the applications addressed the evaluation criteria outlined in the application packet.

OWMRP awarded 180 grants totaling \$9.8 million during our audit period:

Fiscal Year	Cleanup Grants		Market Development Grants		Total Awarded
	Awards	Amount	Awards	Amount	
2013	58	\$1,164,728	10	\$2,400,893	\$3,565,621
2014	34	358,200	9	2,503,674	2,861,874
2015	48	587,000	21	2,812,977	3,399,977
Total	140	\$2,109,928	40	\$7,717,544	\$9,827,472

AUDIT OBJECTIVE

To assess the sufficiency of OWMRP's process for awarding scrap tire grants.

CONCLUSION

Sufficient.

FACTORS IMPACTING CONCLUSION

- Selected grantees appeared to be appropriately eligible for the awarded grant.
- Reportable condition related to the need to retain documentation of selection process results (Finding #3).

* See glossary at end of report for definition.

FINDING #3

Documentation not retained to validate selection of grant award recipients.

OWMRP did not retain documentation of selection process results for the awarding of scrap tire grants. This is especially important when grant requests exceed available funding and OWMRP can award grants to only a portion of the applicants, as identified in the following table:

Fiscal Year	Cleanup Grants			Market Development Grants		
	Applications Received	Applications Approved for Funding	Percent Approved	Applications Received	Applications Approved for Funding	Percent Approved
2013	64	58	91%	12	10	83%
2014	34	34	100%	24	9	38%
2015	55	48	87%	50	21	42%

The scrap tire grant application form states that applications will be reviewed and prioritized and that OWMRP's evaluation documentation will be available upon request. In addition, Department of Environmental Quality (DEQ) policy 10-004 states that, for each DEQ grant, program staff must prepare a recommendation packet that includes all projects and the rationale for recommending or not recommending funding for each project.

Our review disclosed:

- a. OWMRP did not complete and retain evaluations for 8 (50%) of 16 selected scrap tire market development grant letters of interest. Complete letters of interest, including narrative descriptions that meet program requirements, result in an invitation from OWMRP to the applicant to submit an application.
- b. OWMRP did not complete and retain evaluations for 23 (77%) of 30 selected scrap tire cleanup and market development grant applications.
- c. OWMRP did not complete a summary recommendation packet, including the rationale for recommended and nonrecommended projects for fiscal years 2014 and 2015.

Evaluations not completed or retained for 77% of selected scrap tire grant applications.

OWMRP informed us that grant files did not contain letters of interest or application evaluations because of staff turnover and a change in the evaluation process beginning in fiscal year 2015 in which a committee evaluated the applications during a meeting rather than on individual evaluation forms. OWMRP also informed us that, beginning in fiscal year 2014, its management requested to receive only a summary of recommended projects.

RECOMMENDATION

We recommend that OWMRP retain documentation of selection process results for the awarding of scrap tire grants.

**AGENCY
PRELIMINARY
RESPONSE**

OWMRP provided us with the following response:

OWMRP agrees with this finding. When a grant is awarded, a high level memo with recommendations is sent to the DEQ Director. However, OWMRP agrees that lower level evaluation documentation of individual grant applications was not retained. OWMRP will develop a scoring sheet detailing the grant review committee's evaluations. This scoring sheet will be submitted with the recommendation memo to the Director as support. OWMRP will also reinstate its usage of letter notification to the unsuccessful grant applicants. Amendments to OWMRP's grant procedures to reflect these changes will follow.

MONITORING PROJECTS FUNDED WITH SCRAP TIRE GRANTS

BACKGROUND

Scrap tire grants are reimbursement grants. After the grantee incurs eligible expenses, the grantee submits a reimbursement request to OWMRP including proof of payment, such as a canceled check, wire transfer confirmation, or bank statement. OWMRP reviews the documentation and reimburses for allowable costs.

AUDIT OBJECTIVE

To assess the effectiveness of OWMRP's efforts to monitor projects funded with scrap tire grants.

CONCLUSION

Moderately effective.

FACTORS IMPACTING CONCLUSION

- Requests for reimbursement appeared to be scrap tire-related.
- Reportable conditions related to scrap tire policies and grant applications not accurately reflecting allowable costs (Finding #4) and the need for documentation of inspections prior to issuing final payments to scrap tire grantees (Finding #5).

FINDING #4

Allowable costs for applicant eligibility and reimbursement requirements are not accurately reflected in the scrap tire grant applications.

Proper proof of payment not obtained for grantees reimbursed \$1.4 million.

OWMRP should ensure that scrap tire policies and grant application forms accurately reflect allowable costs for applicant eligibility and reimbursement requirements. Improved guidance on allowable costs could encourage eligible applicants to apply for grant funding and also reduce inappropriate reimbursement requests.

OWMRP awarded 180 market development and cleanup grants during our audit period. Our selection of 21 grants disclosed:

- a. OWMRP reimbursed \$393,600 to 2 (29%) of 7 grantees that did not meet the 50% cash match requirement for market development grants. OWMRP permitted 1 grantee to take out a loan as part of its match rather than use cash as required by the application. OWMRP also permitted 1 grantee to inappropriately use in-kind services as part of its match.
- b. OWMRP reimbursed \$1.4 million to 5 (24%) of 21 scrap tire grantees without obtaining proper proof of payment as required by policy. OWMRP accepted general ledger printouts for 3 grant reimbursement requests and did not require both the invoice and canceled check for 2 grant reimbursement requests.
- c. OWMRP reimbursed \$12,200 to 1 (14%) of 7 grantees for salaries (also included in part a. of this finding), which are not eligible for reimbursement.

Existing practice allows reimbursement to grantees without proper documentation if the expense meets the intent of the program.

RECOMMENDATION

We recommend that OWMRP ensure that scrap tire policies and grant application forms accurately reflect allowable costs for applicant eligibility and reimbursement requirements.

AGENCY PRELIMINARY RESPONSE

OWMRP provided us with the following response:

OWMRP agrees with this finding. Neither the reimbursable salaries nor the types of match identified within this finding violate State or Federal regulations. Internal OWMRP grant applications and policies are more restrictive than these statutes. OWMRP is in the process of reviewing and updating internal policy and procedures to coincide with State and Federal guidance to allow grantees the flexibility to maximize their grant funding. Also, OWMRP's reimbursement policy is more restrictive than DEQ's overall grant reimbursement policy which allows for the use of general ledger printouts as proof of payment. Therefore, those OWMRP policies will also be revised to concur with overall DEQ policy.

FINDING #5

Final payments made to scrap tire grantees without documentation of inspections and completion of other scrap tire forms.

\$2.0 million in payments made without documenting inspections.

OWMRP did not always document inspections and prepare scrap tire documentation forms prior to issuing final payments to scrap tire grantees. As a result, OWMRP could not ensure that grantees fulfilled the terms of their grant agreements.

We reviewed 6 scrap tire market development and 14 scrap tire cleanup grants and noted:

- a. OWMRP did not document inspections for 6 (100%) of the 6 completed development grants that received \$1.9 million during our audit period. The development grant agreement states that OWMRP will inspect the project site prior to issuing final payment.
- b. OWMRP did not document its inspections of 5 (36%) of the 14 completed cleanup grants that received \$51,400 during our audit period. DEQ policy 169-5 states that the grant site documentation form must be submitted by the DEQ district office to the OWMRP Administrative Services Section to facilitate final payment. The documentation form also states that final payment will not be made until DEQ district staff inspect the site and confirm the number of tires remaining on site.

OWMRP informed us that it completes inspections prior to final payment for both market development and cleanup grants, but it does not always document the inspections.

RECOMMENDATION

We recommend that OWMRP document inspections and prepare scrap tire documentation forms prior to issuing final payments to scrap tire grantees.

AGENCY PRELIMINARY RESPONSE

OWMRP provided us with the following response:

OWMRP agrees with this finding. While the inspections were completed by staff as required, they were not consistently documented in the Waste Data System (WDS) or retained as a paper hard copy. OWMRP is in the process of reviewing and updating policy and procedures to ensure proper documentation exists in the near future. A stronger emphasis on staff training will help increase reporting compliance. OWMRP will develop a reporting mechanism to allow supervisors the ability to periodically verify staff's compliance with documentation requirements.*

* See glossary at end of report for definition.

COMPLYING WITH SELECTED LAWS, POLICIES, AND PROCEDURES RELATED TO SCRAP TIRE AND SOLID WASTE PROGRAMS

BACKGROUND

The Scrap Tire Program is governed by Sections 324.16901 through 324.16911 of the *Michigan Compiled Laws* (Part 169 of the Natural Resources and Environmental Protection Act, i.e., Public Act 451 of 1994, as amended). Through its Scrap Tire Program, OWMRP is responsible for the issuance of annual registrations for scrap tire haulers* and scrap tire collection sites* and the related compliance inspection and enforcement activities.

The Solid Waste* Program is governed by Sections 324.11501 through 324.11554 of the *Michigan Compiled Laws* (Part 115 of the Natural Resources and Environmental Protection Act, i.e., Public Act 451 of 1994, as amended). Through its Solid Waste Program, OWMRP 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*, and yard clippings compost facility registration. OWMRP is also responsible for solid waste management planning, including financial assurance*, and assistance to local communities in their recycling and composting activities.

AUDIT OBJECTIVE

To assess OWMRP's compliance with selected laws, policies, and procedures related to its Scrap Tire and Solid Waste Programs.

CONCLUSION

Complied, with exceptions.

FACTORS IMPACTING CONCLUSION

- OWMRP facilitated the Solid Waste and Sustainability Advisory Panel (SWSAP) to assist with a broad and comprehensive review of Part 115 of the Natural Resources and Environmental Protection Act, Public Act 451 of 1994, as amended, and other statutes related to furthering its solid waste and sustainability goals.
- Reportable conditions related to the need for timely entry of complete information into WDS (Finding #6), not inspecting and documenting inspections of scrap tire haulers and collection sites prior to issuance of annual registrations (Finding #7), and not performing some solid waste site inspections as required by statute (Finding #8).

* See glossary at end of report for definition.

FINDING #6

Improvements are needed for timely and complete input of information into WDS.

OWMRP did not enter 58% of scrap tire cleanup grant inspections into WDS.

OWMRP did not ensure the timely and complete input of scrap tire and solid waste information into WDS to allow proper management oversight.

Our review of WDS at the central office and four district offices disclosed:

- a. OWMRP central staff did not enter \$1.4 million in grant payments into WDS for 12 (57%) of 21 scrap tire grant projects, as required by DEQ policies 169-5 and 169-14.
- b. DEQ district staff did not document all inspections and enter them into WDS:
 - (1) One (2%) of 41 completed scrap tire hauler inspections.
 - (2) Two (5%) of 38 completed scrap tire collection site inspections.
 - (3) Eleven (58%) of 19 scrap tire cleanup grant inspections.
 - (4) Ten (7%) of 140 solid waste inspections.

OWMRP's WDS Compliance Data Entry Manual states that inspection and related data must be entered into WDS within 14 days of the inspection.

- c. DEQ district staff did not enter 9 (39%) of 23 operating license and construction permit applications into WDS within 24 hours, in accordance with DEQ policy 115-7. District staff took an average of 21 days to enter the 9 applications into WDS.
- d. DEQ district staff did not enter 11 (41%) of 27 scrap tire and solid waste inspections into WDS within 14 days of the inspection, as required by OWMRP's WDS Compliance Data Entry Manual. District staff took an average of 46 days to enter the 11 inspections into WDS.

OWMRP stated that payments were not entered into WDS because the payments are tracked separately in an Excel spreadsheet. In addition, staff turnover during the audit period could have contributed to these deficiencies because of a reduced level of consistent oversight of district activities.

We noted issues similar to parts b. through d. of this finding in our prior audit report of Solid Waste Disposal and Scrap Tire Program Activities released in April 2005. In response to that audit report, DEQ stated that it initiated a subcommittee to 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.

RECOMMENDATION

We recommend that OWMRP ensure the timely and complete input of scrap tire and solid waste information into WDS.

**AGENCY
PRELIMINARY
RESPONSE**

OWMRP provided us with the following response:

OWMRP agrees with this finding. Grant payments and inspections were not documented in WDS in a timely manner and consistent with OWMRP internal policy and procedures due to resource constraints. In both cases, OWMRP policies and procedures are more restrictive than statute. Considering resource limitations and previous audit findings, OWMRP will review and update policy and procedures to be consistent with current processes and what is required by statute.

FINDING #7

District staff issued scrap tire hauler and collection site annual registrations without performing inspections.

OWMRP district staff did not always inspect and document that they inspected scrap tire haulers and collection sites prior to the issuance of annual registrations. Inspections assist OWMRP district staff in ensuring that haulers deliver scrap tires to only registered collection sites, that collection site owners accurately report scrap tire information, and that factors negatively impacting the environment and public health are not present at the collection sites.

Sections 324.16904 and 324.16905 of the *Michigan Compiled Laws* require scrap tire haulers and scrap tire collection sites to annually register with OWMRP. In addition, OWMRP policy states that district staff must verify registration information submitted by the applicant through either an inspection or another type of contact for haulers and through an inspection for collection sites.

Our review of 58 annual registrations for 26 scrap tire haulers and 42 annual registrations for 16 scrap tire collection sites at four district offices disclosed:

29% of scrap tire haulers were issued an annual registration without verifying the accuracy of information reported.

- a. For the scrap tire haulers, district staff did not perform inspections or use other methods to verify the accuracy of information provided by the applicants and to confirm the applicants' compliance with scrap tire regulations for 17 (29%) of the 58 annual registrations, as shown in the following table:

District Office	Number of Registrations		Percentage With No Inspection
	Items Reviewed	Items With No Inspection	
1	12	11	92%
2	9	0	0%
3	9	6	67%
4	28	0	0%
	<u>58</u>	<u>17</u>	29%

OWMRP district staff informed us that, in some cases, they recall performing the inspections but did not complete the inspection form or document other methods of verification.

- b. For scrap tire collection sites, district staff did not perform inspections to verify the accuracy of information provided by the applicants and to confirm the applicants'

compliance with scrap tire regulations for 4 (10%) of the 42 annual registrations, as shown in the following table:

District Office	Items Reviewed	Items With No Inspection	Percentage With No Inspection
1	6	2	33%
2	6	1	17%
3	7	1	14%
4	23	0	0%
	<u>42</u>	<u>4</u>	10%

We noted an issue similar to part a. of this finding in our prior audit of Solid Waste Disposal and Scrap Tire Program Activities released in April 2005. In response to that audit, DEQ indicated that staff would properly document inspections or other methods of verifying hauler application information.

RECOMMENDATION

We recommend that OWMRP district staff inspect and document that they inspected scrap tire haulers and collection sites prior to the issuance of annual registration.

AGENCY PRELIMINARY RESPONSE

OWMRP provided us with the following response:

OWMRP agrees with this finding. While the inspections were completed by staff as required, they were not consistently documented in WDS or retained as a paper hard copy. OWMRP is in the process of reviewing and updating policy and procedures to ensure proper documentation exists in the near future. A stronger emphasis on staff training will help increase reporting compliance. OWMRP will develop a reporting mechanism to allow supervisors the ability to periodically verify staff's compliance with documentation requirements.

FINDING #8

Site inspections not performed as required by statute.

58% of the inspections for transfer stations and processing plants were not completed.

OWMRP did not perform some solid waste site inspections as required by statute to ensure that transfer stations and processing plants properly dispose of solid waste.

Section 324.11519(3) of the *Michigan Compiled Laws* states that DEQ or a health officer shall inspect and file a written report not less than 4 times per year for each licensed disposal area. In addition, *Michigan Administrative Code R 299.4508* requires that, following each inspection, the solid waste control agency shall submit to the licensee a written report containing any deficiencies and requirements for correction.

We reviewed inspection files for 20 facilities within four districts and noted:

- a. District offices did not complete 31 (23%) of the 132 required inspections for Type II and Type III landfills.
- b. District offices did not complete 51 (58%) of the 88 required inspections for transfer stations and processing plants.
- c. One district office documented 35 inspections in WDS; however, 17 (49%) of the inspection files were missing an inspection checklist or a hard copy memorandum notifying the facility of any deficiencies and requirements for correction.

OWMRP issued a memorandum in July 2007 outlining the inspection requirements for each solid waste site. In the memorandum, OWMRP acknowledges that its targeted frequency differs from statute requirements. For example, OWMRP allows biannual (twice a year) inspections of transfer stations and processing plants because these facilities present fewer environmental threats than other facilities.

RECOMMENDATION

We recommend that OWMRP perform solid waste site inspections as required by statute.

AGENCY PRELIMINARY RESPONSE

OWMRP provided us with the following response:

OWMRP agrees that inspections for some solid waste facilities were not inspected as required by statute. SWSAP, which consists of members of the regulated community, consultants, local government, environmental groups, and associations with experience and knowledge of solid waste management was established in April 2015. SWSAP has been charged with assisting in the development of recommendations to update or

rescind obsolete requirements in statute for Part 115. We anticipate the inspections required by statute will be addressed through the recommendations of this panel but will be a balance between amending current inspection requirements, as well as addressing the need for additional resources.

AGENCY DESCRIPTION

OWMRP administers a number of diverse 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. OWMRP's responsibilities include management of the Medical Waste, Scrap Tire, and Solid Waste Programs.

OWMRP'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.

For fiscal year 2015, OWMRP expended \$8.4 million on medical waste, scrap tire, and solid waste activities.

AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

AUDIT SCOPE

To examine the program and other records related to OWMRP's Medical Waste, Scrap Tire, and Solid Waste Programs. We conducted this performance audit* in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered the period October 1, 2012 through September 30, 2015.

METHODOLOGY

We conducted a preliminary survey of OWMRP to formulate a basis for establishing our audit objectives and defining our audit scope and methodology. We:

- Interviewed OWMRP personnel to obtain an understanding of the programs.
- Reviewed applicable laws, rules, regulations, policies, procedures, manuals, and other pertinent information.
- Reviewed records for selected contracts and grants and analyzed contract and grant agreement information.

OBJECTIVE #1

To assess the effectiveness of OWMRP's efforts to ensure that medical waste producers are registered and disposing of medical waste properly.

To accomplish this objective, we:

- Researched 50 of 1,589 medical waste-producing facilities with expired medical waste registrations to determine if the facilities were in business or closed.
- Judgmentally selected 120 of 875 inspections completed by LHDs of registered medical waste-producing facilities to evaluate compliance with the Medical Waste Regulatory Act.
- Judgmentally selected 64 of 243 inspections completed by LHDs of unregistered medical waste-producing

* See glossary at end of report for definition.

facilities to determine if the facilities registered after the inspection.

- Summarized medical waste registration fees from six other states and compared the fees with those charged by Michigan.

OBJECTIVE #2

To assess the sufficiency of OWMRP's process for awarding scrap tire grants.

To accomplish this objective, we:

- Interviewed OWMRP staff to understand the process used to select cleanup and market development grant recipients.
- Reviewed grant application packets to identify OWMRP's process for prioritizing and awarding scrap tire grants.
- Analyzed applications to determine that the letters of interest and applications were submitted by the deadline, contained all required components, and appeared eligible.
- Reviewed 16 of 86 market development grant files for letter of interest evaluations documenting OWMRP's initial review and acceptance of the applicants' plan to apply for funding.
- Reviewed 30 of 239 cleanup and market development grant files to determine whether OWMRP completed the application evaluations and prioritized the funding requests.
- Reviewed the memorandums sent to the DEQ director that identified the approved fiscal year 2013, 2014, and 2015 market development scrap tire projects to determine whether the memorandums included all projects, reasons for approval or denial, and amounts approved for funding.

OBJECTIVE #3

To assess the effectiveness of OWMRP's efforts to monitor projects funded with scrap tire grants.

To accomplish this objective, we:

- Analyzed payments made to 21 of 69 scrap tire grantees to determine whether the payments were appropriate and adequately supported.

- Reviewed 20 completed scrap tire grant files to determine whether OWMRP completed inspections ensuring that the projects were completed as required.

OBJECTIVE #4

To assess OWMRP's compliance with selected laws, policies, and procedures related to its Scrap Tire and Solid Waste Programs.

To accomplish this objective, we:

- Reviewed WDS to determine whether OWMRP entered scrap tire grant payments.
- Reviewed scrap tire and solid waste files to determine whether OWMRP entered completed inspections in WDS.
- Assessed the timely entry of operating licenses, construction permit applications, and scrap tire and solid waste inspections into WDS.
- Reviewed scrap tire hauler and collection site files at four district offices to determine whether staff performed inspections to verify the accuracy of information provided by the applicants.
- Reviewed solid waste disposal facility files at four district offices to assess whether district staff performed inspections as required by statute.
- Reviewed 12 of 34 Type II and Type III landfills and 8 of 55 transfer stations and processing plants to determine whether OWMRP ensured that facilities had sufficient financial assurance and perpetual care funding to cover closure and postclosure costs in accordance with statutory requirements.

CONCLUSIONS

We base our conclusions on our audit efforts and the resulting material conditions* and reportable conditions.

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve State government operations. Consequently, we prepare our performance audit reports on an exception basis.

AGENCY RESPONSES

Our audit report contains 8 findings and 8 corresponding recommendations. OWMRP's preliminary response indicates that it agrees with 7 recommendations and neither agrees nor disagrees with 1 recommendation.

* See glossary at end of report for definition.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion at the end of our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require an audited agency to develop a plan to comply with the recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

**PRIOR AUDIT
FOLLOW-UP**

We released our prior performance audits of Solid Waste Disposal and Scrap Tire Program Activities, Department of Environmental Quality (76-141-04), in April 2005 and the Radiological Protection and Environmental Health Programs, Department of Environmental Quality (76-125-00), in July 2001. Within the scope of this audit, we followed up 8 of the 12 prior audit recommendations. DEQ complied with 4 of the 8 recommendations. We rewrote 2 prior audit recommendations in Findings #6 and #7 and determined that the 2 other prior audit recommendations were no longer applicable.

GLOSSARY OF ABBREVIATIONS AND TERMS

construction permit	A permit obtained from OWMRP 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., Public Act 451 of 1994.
DEQ	Department of Environmental Quality.
effectiveness	Success in achieving mission and goals.
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.
landfill	A facility that must be permitted and licensed by OMWRP 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.
LHD	local health department.
material condition	A matter that, in the auditor's judgment, is more severe than a reportable condition and could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
medical waste	Items such as (1) cultures and stocks of infectious agents, (2) human and animal blood and body fluids, (3) sharps, (4) pathological waste (organs, tissues, etc.), and (5) contaminated animal waste infectious to humans not generated from a household, a farm operation or other agricultural business, a home for the aged, or a home health care agency.
operating license	A license obtained from OWMRP 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., Public Act 451 of 1994.
OWMRP	Office of Waste Management and Radiological Protection.

performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.
processing plant	A facility used to process solid waste in which the material brought to the site is intended to be separated for salvage or disposal or both. Processing plants must obtain a construction permit and an operating license from OWMRP.
reportable condition	A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the audit objectives; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.
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	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>): <ul 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 OWMRP.
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</i>

Compiled Laws, a person who transports more than 10 scrap tires at once in a vehicle on a public road or street is considered to be in the commercial business of transporting scrap tires.

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.
SWSAP	Solid Waste and Sustainability Advisory Panel.
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 obtain a construction permit and an operating license from OWMRP 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 OWMRP uses to record and monitor activities related to solid waste and scrap tires.

