



October 25, 2017

Performance Audit

Air Quality Permit Revenue Process

Environmental Health Department

Report No. 17-101



**CITY OF ALBUQUERQUE
OFFICE OF INTERNAL AUDIT**

PERFORMANCE AUDIT REPORT
AIR QUALITY PERMIT REVENUE PROCESS
ENVIRONMENTAL HEALTH DEPARTMENT
REPORT NO. 17-101

TABLE OF CONTENTS

	<u>PAGE NO.</u>
Executive Summary	i
Introduction	1
Findings:	
1. EHD Should Establish Formal Policies and Procedures for the Various Revenue Processes Pertaining to Air Quality Permits.	3
Conclusion	7
Appendix A – Objectives, Scope, and Methodology	9
Appendix B – Number of Days to Process Payments	11

Air Quality Permit Revenue Process

Performance Audit

October 25, 2017

Audit #17-101

The purpose of this audit was to determine if the Environmental Health Department's internal controls are effective for ensuring the accuracy, timeliness, and appropriateness of air quality permit revenue transactions.

Executive Summary

This audit was included in the Office of Internal Audit's Fiscal Year 2017 audit plan.

Overall, EHD's internal controls are effective for ensuring both the accuracy and appropriateness of air quality permit revenue, as well as the security of air quality permits. EHD would benefit from establishing formal, detailed policies and procedures for the various revenue processes within the Air Quality Program.

Formal policies and procedures would help ensure management's control activities and that procedures are clearly defined and consistently applied by EHD staff.

Throughout the audit, various issues were noted and include:

- Payments not processed within 24 hours;
- Payment verifications not performed;
- Insufficient controls for payments received through the mail; and
- Manual billing for air quality permits.

EHD concurs with the finding and will implement the recommendations by the end of FY2018.

Recommendation

• • •

EHD should establish and formalize detailed policies and procedures for the various revenue processes within the Air Quality Program to include:

- Processing all air quality permit payments within 24 hours;
- Verifying all payments were successfully processed through the City's point of sale system;
- Ensuring that the individual responsible for verifying the receipt of air quality permit fees receives the daily payment log; and
- Improving internal controls over the mail process by:
 - Maintaining a log of payments received in the mail, and
 - Establishing formal separation of duties to identify who is responsible for each task.



City of Albuquerque

Office of Internal Audit

October 25, 2017

Accountability in Government Oversight Committee
P.O. Box 1293
Albuquerque, New Mexico 87103

Audit: Air Quality Permit Revenue Process
Environmental Health Department
Audit No. 17-101

FINAL

INTRODUCTION

The Office of Internal Audit (OIA) conducted a performance audit of the Environmental Health Department's (EHD) Air Quality Permits Revenue Process. The audit was included in OIA's fiscal year (FY) 2017 audit plan. Information pertaining to the audit objectives, scope and methodology can be found in **Appendix A**.

EHD's mission is to "responsively and professionally serve the people of Albuquerque by promoting and protecting public health, by preventing disease, and by preserving the integrity and quality of our environment through sustainable management and responsible stewardship."

EHD has a dedicated program within the department that is responsible for air quality permits. EHD's Air Quality Program is responsible for the receipt, inspection, and issuance of air quality permits. There are several different types of air quality permits, which may be general or specialized. General air quality permits include emergency generators and gasoline service stations; major source of hazardous air pollutants; and fugitive dust programmatic permits. Specialized air quality permits include internal combustion engines (emergency & non-emergency); and diesel engines (emergency generator & non-emergency generator).

Title V of the Clean Air Act requires inspection of major contributors of air pollution and also requires that the entities being inspected bear all compliance costs. The operating permits program regulates the operations of industrial and commercial sources of air pollutants, administers the

fugitive dust program as required by Air Quality Control Board regulations, and provides technical consultation as it relates to the permitting application. The Air Quality Fund (Fund 242) is an umbrella for Title V of the Clean Air Act and provides the mechanism for the program strategies.

Fund 242 is used to account for the operation of the City’s Air Pollution Control Program Strategy. Revenues for Fund 242 are derived from station permit fees, inspector certification fees, certified paper sales, operator permit fees, asbestos notifications, and fugitive dust permits. The table below shows the fund’s total revenue along with the detail of two applicable funding sources of the audit. The audit did not include an examination of all functions, activities, or programs within Fund 242, but rather focused on the revenue process for air quality and fugitive dust permits.

**Fund 242 – Air Quality Fund
 Select Revenue Categories**

	FY 2015	FY 2016	FY 2017 (Re-estimated Budget)
Total Revenue (Entire Fund)	3.2 million	2.8 million	3.1 million
Revenues – Air Quality Permit Fees	\$876,127	\$799,866	\$772,767
Revenue – Fugitive Dust Permits	\$264,767	\$212,328	\$250,000
<i>Total Air Quality Permit & Fugitive Dust Fees</i>	<i>\$1,140,894</i>	<i>\$1,012,194</i>	<i>\$1,022,767</i>

Source: CABQ Budget documents

Audits performed by OIA often involve a review of the department’s internal controls. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) developed the Internal Control Framework (COSO Framework) to assist organizations in “designing, implementing, and conducting internal control and assessing its effectiveness.” The COSO Framework has gained global acceptance as the standard by which to compare internal controls, and OIA uses it to evaluate the design and effectiveness of the department’s internal controls.

Overall, EHD’s internal controls are effective for ensuring the accuracy and appropriateness of air quality permit revenue, and ensuring the security of air quality permits. OIA noted various areas for improvement pertaining to controls over air quality permit revenue.

FINDINGS

The following findings address areas that OIA believes could be improved by the implementation of the related recommendations.

1. EHD SHOULD ESTABLISH FORMAL POLICIES AND PROCEDURES FOR THE VARIOUS REVENUE PROCESSES PERTAINING TO AIR QUALITY PERMITS.

EHD has not established formal policies and procedures for all revenue processes within the Air Quality Program. EHD does have certain informal standard operating procedures that provide general guidelines for the collection, processing, and verification of air quality permit fee revenue, but would benefit from establishing formal, detailed policies and procedures.

Various issues were noted throughout the audit and include:

- Payments not processed within 24 hours;
- Payment verifications are not performed;
- Insufficient controls for payments received through the mail; and
- Manual billing for air quality permits.

EHD management stated that formal policies and procedures have not been established because EHD's software is still fairly new, and they are in the process of reviewing and determining what should be addressed and included.

By establishing formal, detailed policies and procedures, EHD management can provide greater assurance for the processing and control over the average \$3 million revenue in Fund 242.

Further details are provided in the following sub-sections for the various issues noted throughout the audit.

- **Payments Not Processed Within 24 Hours**

EHD does not have an internal process for ensuring that payments received are processed within 24 hours.

Nine of the ten dates selected from the daily payment logs contained payments that were not processed within 24 hours, as required by Administrative Instruction (AI) 2-2. AI 2-2, paragraph 15.7 states "Cash/checks received must be processed within twenty-four (24) hours of receipt. Any checks not received and not deposited need a

justification as to why checks were not deposited within twenty-four (24) hours.”

A comparison of the hand-written receipt to the payment log date revealed that some payments had not been processed for up to 18 days, as shown in **Appendix B**.

- **Payment Verifications are Not Performed**

A verification of the payments received is not performed to ensure that all payments received at EHD's office were successfully processed through the City's point of sale system. EHD management stated that there was a breakdown in internal communication, as the individual performing reconciliations was unaware that daily payment logs were created or retained, which would allow for payments to be verified.

Principle 10 of the COSO Framework states that the organization should select business processes and transaction control activities to help it achieve its objectives, such as completeness and verifications. Completeness ensures that all transactions that occur are recorded, while verifications “compare two or more items with each other or compare an item with a policy, and perform a follow-up action when the two items do not match or the item is not consistent with policy.”

Without providing the daily payment log to the individual responsible for reconciling processed payments, EHD does not have assurance that all manual payments received at EHD's office were successfully processed through the City's point of sale system.

- **Insufficient Controls for Payments Received Through the Mail**

Internal controls for receiving payments through the mail are under-developed and not documented. For example, formal separation of duties have not been established and a mail log is not maintained. Several employees collect and process funds, and there are no policies to prevent one employee from performing all revenue processing tasks. The same individual should not open the mail and create the daily payment log.

As it is not unusual for departments to receive payments through the mail as part of daily operations, it is important to establish adequate controls to limit potential losses. The Office of Internal Audit in Louisville, Kentucky has developed best practices for mail room internal controls, which include:

- Designating a minimum of two people to open the mail;
 - One person to total the remittances and
 - One person to total the payments.
- Agreeing the totals and forwarding the remittances, payments, and agreed totals to the appropriate area for processing.

Strong internal controls for processing mailed-in payments will enable EHD to accurately track and confirm that all payments received are processed within the required 24 hour period.

- **Manual Billing for Air Quality Permits**

EHD does not have formalized policies and procedures for when and how to complete manual billing for air quality permits. From a sample of 24 air quality permits issued, one permit had not been billed and collected.

According to EHD management, if a fugitive dust application is received during the time frame July 1st to December 31st, the inspector reviewing the application should manually invoice the applicant. If the application comes in between January 1st and June 30th, EHD invoices the applicant with the automated July billing process. The manual billing process was verbally conveyed to the inspector and is not a formally documented procedure.

Policies reflect management’s statement of what should be done to effect control. According to the COSO Framework, Principle 14, management should establish “control activities that are built into business processes and employees’ day-to-day activities through policies establishing what is expected and relevant procedures specifying actions.”

Without formalized, detailed policies and procedures, EHD processes may not be accurately or consistently performed.

RECOMMENDATION

EHD should establish and formalize detailed policies and procedures for the various revenue processes within the Air Quality Program to include:

- Processing all air quality permit payments within 24 hours;
- Verifying all payments were successfully processed through the City’s point of sale system;
- Ensuring that the individual responsible for verifying the receipt of air quality permit fees receives the daily payment log; and
- Improving internal controls over the mail process by:
 - Maintaining a log of payments received in the mail, and
 - Establishing formal separation of duties to identify who is responsible for each task.

RESPONSE FROM EHD

“The Environmental Health Department Air Quality Program shall establish formal, detailed policies and procedures for our various revenue processes to address Internal Audit’s findings and recommendation to ensure that payments are processed within 24 hours, payment verification is performed, appropriate controls and separation of duties are in place and to ensure billing procedures for air quality permits are formalized.

Prior to the completion date, training will be provided to the appropriate staff to ensure understanding of the newly developed policies and procedures.”

ESTIMATED COMPLETION DATES

“June 30, 2018”

CONCLUSION

Overall, EHD's internal controls are effective for ensuring both the accuracy and appropriateness of air quality permit revenue, as well as the security of air quality permits. EHD would benefit from establishing formal, detailed policies and procedures for the various revenue processes within the Air Quality Program. Formal policies and procedures would help ensure management's control activities and procedures are clearly defined and consistently applied by EHD staff.

We greatly appreciate the assistance, involvement and cooperation of EHD's management and staff throughout the audit process. Their attentiveness and active participation were a pleasure to work with and a tribute to the professionalism of the Department.

Contract Auditor

REVIEWED:

Senior Information Systems Auditor

APPROVED:

Lawrence L. Davis, Acting City Auditor
Office of Internal Audit

APPROVED FOR PUBLICATION:

Chairperson, Accountability in
Government Oversight Committee

APPENDIX A

OBJECTIVE

The audit objectives were to determine:

1. Are EHD's internal controls effective for ensuring the accuracy, timeliness and appropriateness of air quality permit revenue transactions?
2. Are internal controls effective for ensuring the accuracy and security of air quality permit inventory?

SCOPE

Our audit did not include an examination of all functions and activities related to Air Quality Permit Revenue Process. Our scope was limited to the objectives above.

This report and its conclusions are based on information taken from a sample of transactions and do not represent an examination of all related transactions and activities. The audit report is based on our examination of activities through the completion of fieldwork on July 7, 2017 and does not reflect events or accounting entries after that date.

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.

METHODOLOGY

Methodologies used to accomplish the audit objectives include but are not limited to the following:

- Obtain and review the most recent, current, up-to-date policies and procedures regarding the air quality permit revenue process;
- Obtain copies of current cash handling certificates for EHD employees;
- Obtain cash handling records from the City's Treasury Division;
- Compare EHD cash handling certificates to the City's Treasury Division records;
- Interview key EHD employees regarding air quality permit revenue processes;
- Interview key EHD employees regarding physical controls over air quality permits;
- Select a statistical random sample of air quality permits issued during the audit period for

- testing;
- Summarize all findings and provide auditee with recommendations that will help to strengthen internal controls, cost savings, and operating efficiency and effectiveness; and
 - Other methodologies as needed.

APPENDIX B

**Number of Days to Process Payments
 July 2016 Through April 2017**

	<u>Dates of Hand-written Receipts *</u>	<u>Payment Log Date</u>	<u>Date Log Delivered to Treasury</u>	<u>Payment Log Total</u>	<u>Days to Process (From Receipt Date)</u>
1	7/19/2016 7/19/2016	7/28/2016	7/28/2016	\$ 21,501.97	9 days
2	8/17/2016 8/18/2016 8/18/2016 8/18/2016 8/19/2016 8/23/2016 8/25/2016	8/25/2016	8/25/2016	\$ 73,851.98	0-8 days
3	9/8/2016 9/8/2016 9/9/2016 9/9/2016	9/12/2016	9/12/2016	\$ 28,463.25	3-4 days
4	10/18/2016 10/18/2016 10/19/2016 10/20/2016 10/25/2016 10/26/2016	10/26/2016	10/26/2016	\$ 4,418.38	0-8 days
5	12/2/2016 12/7/2016 12/8/2016 12/8/2016 12/8/2016 12/8/2016 12/8/2016 12/9/2016 12/12/2016	12/12/2016	12/12/2016	\$ 15,563.16	0-10 days

**Number of Days to Process Payments
 July 2016 Through April 2017**

	<u>Dates of Hand-written Receipts</u> *	<u>Payment Log Date</u>	<u>Date Log Delivered to Treasury</u>	<u>Payment Log Total</u>	<u>Days to Process (From Receipt Date)</u>
6	12/13/2016 12/21/2016 12/28/2016 1/4/2017 1/4/2017 1/10/2017 1/11/2017	1/12/2017	1/13/2017	\$ 14,108.00	2-16 days
7	1/26/2017 1/31/2017 2/1/2017 2/2/2017 2/7/2017	2/8/2017	2/13/2017	\$ 3,939.50	6-18 days
8	No Date 3/8/2017 3/10/2017 3/15/2017	3/20/2017	3/20/2017	\$ 13,480.08	5-12 days
9	4/11/2017 4/11/2017	4/18/2017	4/19/2017	\$ 27,176.00	8 days

* Multiple payments listed on each payment log