



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

Department of Environmental Quality

Audit Report for the Biennium Ended June 30, 2023

Client Code 303





WHAT WE LOOKED AT AND WHY

North Dakota state law requires that our team perform an audit once every two to four years. This included a review of financial transactions and determining that expenditures are correct. Our audit reports any errors, internal control weaknesses or potential violations of law identified in significant or high-risk functions of the agency.

WHAT WE FOUND

This audit did not identify any areas of concern.



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HAVE QUESTIONS? ASK US.

**NORTH DAKOTA STATE
AUDITOR'S OFFICE**

600 E. Boulevard Ave. Dept. 117
Bismarck, North Dakota 58505

-  701-328-2241
-  NDSAO@nd.gov
-  ND.gov/Auditor
-  Facebook.com/NDStateAuditor
-  Linkedin.com/company/NDStateAuditor
-  Youtube.com/@NDStateAuditor

Introduction

Department of Environmental Quality

December 18, 2023

We are pleased to submit this audit of the Department of Environmental Quality (DEQ) for the biennium ended June 30, 2023. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two to four years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

The primary consideration in determining the contents of these audits is to produce informative audits to improve government. Statutory audit requirements are an important part of these audits and are addressed by our standard audit objective. Whenever possible, additional audit objectives are included to increase responsiveness and effectiveness of state government.

Lindsey Slappy, CPA, was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-2441. We wish to express our appreciation to the DEQ staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/s/

JOSHUA C. GALLION
NORTH DAKOTA STATE AUDITOR

TERMS USED IN REPORT

Appropriation: An amount authorized by the North Dakota Legislative Assembly to be spent for a specific purpose.

ConnectND: The accounting system for North Dakota.

Emergency Commission: Group of elected officials that have the authority to transfer or expend money appropriated by the North Dakota Legislative Assembly. Additional information can be found in N.D.C.C. Chapter 54-16.

Internal Control: Policies and procedures that ensure reliable financial reporting, safeguard assets, promote accountability and efficiency, and prevent fraud.

Noncompliance: Failure to act in accordance with a wish or command.

North Dakota Administrative Code (N.D.A.C.): The codification of all rules of state administrative agencies.

North Dakota Century Code (N.D.C.C.): Collection of all the statutes passed by the North Dakota Legislative Assembly.

Performance Audit: Engagements that provide objective analysis, findings, and conclusions to assist management and those charged with governance and oversight to improve program performance and operations, reduce costs, facilitate decision making, and contribute to public accountability.

Session Laws: Published after each regular and special legislative session and contain the laws enacted during that session.



Audit Results

▼ PRIMARY OBJECTIVE

Are there any errors, internal control weaknesses, or potential violations of law for significant or high-risk functions of the agency?

CONCLUSION

No errors, internal control weaknesses, or potential violations of law were identified.

Audit Procedures

Primary Objective

INTERNAL CONTROL

We obtained an understanding of internal control through inquiries, observations, and inspection of documentations and electronic data records. We planned our audit work to assess the design, implementation, and operating effectiveness of those internal controls that were significant to our audit objectives.

The specific internal control testing completed for this audit objective is identified below:

- Segregated preparation and approval of expenditures is tested statewide in the State of North Dakota Annual Comprehensive Financial Report.
- Ensured employees had proper procurement officer certification training for the types of procurements conducted and tasks performed.
- Ensured travel-related expenses were approved by the Division Director.
- Ensured purchase card holders reconciled their receipts to monthly individual purchase card statements.
- Ensured purchase card expenditures were approved by an appropriate individual.
- Ensured capital assets were properly inventoried and adjustments and deletions were properly authorized.
- Ensured capital asset expenditures were approved by an appropriate individual.
- Ensured time sheets were approved by the employee's immediate supervisor.

There were no deficiencies identified.

SCOPE

The DEQ has operations in the following locations. Each location will be included in the audit scope:

- The central office, chemistry lab, and environmental training center in Bismarck.
- Four field offices (Fargo, Gwinner, Sawyer, Towner).

METHODOLOGY

To meet this objective, we:

- Interviewed appropriate agency personnel.
- Observed the Department's processes and procedures.
- Inspected documentary evidence.
- Analyzed financial data in ConnectND to determine areas of risk.
- Used a non-statistical random sample, and the results were projected to the population. Where applicable, populations were stratified for efficiency and to ensure the population was adequately represented in the samples.
- Analyzed expenditures to determine the Department of Environmental Quality did not expend more than appropriated (N.D.C.C. 54-16-03).
 - 2021 Session Laws Senate Bill 2024, Section 1
- Tested compliance with the documented intent of appropriation laws funding restrictions, including one-time funding items.
 - Determined the \$1,000,000 of appropriation funding was used for the Laboratory Information Management System (2021 Session Laws Senate Bill 2024, Section 2).
 - \$250,000 appropriation from the Environment and

- Rangeland Protection fund and \$50,000 grant to the North Dakota Stockmen's Association (2021 Session Laws Senate Bill 2024, Section 3).
- Collected up to \$773,983 for use in the Petroleum Tank Release Program (2021 Session Laws Senate Bill 2024, Section 4).
- Reviewed expenditures related to appropriation adjustments including those approved by the Emergency Commission to ensure the Department of Environmental Quality complied with the intent of the adjustments (N.D.C.C. 54-10-01.1, N.D.C.C. 54-16-03).
- Reviewed non-appropriated fund activity to ensure the Department of Environmental Quality had legislative approval for non-appropriated expenditures (N.D.C.C. 54-44.1-09).
- Selected a random sample and tested compliance with boiler inspection fees (N.D.C.C. 23.1-16-10, N.D.A.C. 33.1-14-11).
- Reviewed the State Regional Haze plan to ensure it includes an analysis of the natural and international causes of visibility impairment (N.D.C.C. 23.1-06-16).
- Selected a judgmental sample and tested compliance with Radioactive Material license fees (N.D.A.C. 33.1-10-11).
- Selected a judgmental sample and tested compliance with Petroleum Tank Registration fees (N.D.C.C. 23.1-12-17).
- Selected a random sample of Petroleum Release Compensation Fund expenditures and determined that charges were in accordance with fund restrictions (N.D.C.C. 23.1-12).
- Selected a random sample of applicable expenditures to ensure goods and services were properly procured (N.D.C.C. 54-44.4, N.D.A.C. Title 4-12, and OMB State Procurement Manual Guidelines).
- Selected a random and judgmental sample of travel-related expenditures to ensure compliance with law (N.D.C.C. 44-08-03, N.D.C.C. 44-08-04, N.D.C.C. 54-06-09).
- Selected a random sample of expenditures and determined expenditures were properly coded and supported.
- Selected a judgmental sample of purchase card transactions and determined receipts were present to support individual purchase card statement charges, purchases were reasonable, and coding was adequate for management control and financial reporting purposes (N.D.C.C. 44-08-05.1, and OMB purchasing card manual).
- Selected a sample of capital asset deletions to ensure the record was properly deleted and the disposal method was recorded. The sample consisted of some high-risk items and some randomly selected items.
- Selected a sample of capital asset additions to ensure the costs were capitalized properly. The sample consisted of some high-risk items and some randomly selected items.
- Selected a sample of capital asset expenditures to ensure the items were properly capitalized and coded. The sample consisted of high-risk items and randomly selected items.
- Selected a random sample of timecards to ensure the hours paid agree to the timecards.
- Reviewed DEQ's procedures for distributing the equity pool adjustment to ensure compliance with law (2023 Session Laws Senate Bill 2015, Section 20).
- Reviewed DEQ's annual physical inventory report to ensure the inventory records are properly maintained (N.D.C.C. 44-04-07).
-

AUTHORITY AND STANDARDS

This biennial audit of the Department of Environmental Quality has been conducted by the Office of the State Auditor pursuant to authority within North Dakota Century Code Chapter 54-10.

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.

The standards used to evaluate internal control are published in the publication Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States (Green Book, GAO-14- 704G).

Financials

Revenues and Expenditures

REVENUES AND OTHER SOURCES	JUNE 30, 2023	JUNE 30, 2022
Revenue from Federal Government	\$ 9,629,604	\$ 9,892,431
Permits and Fees	4,460,841	4,775,536
Fines	934,568	1,254,991
Inspection Fees	600,467	585,701
Water/Laboratory Analysis Fees	539,719	522,414
Miscellaneous Program Revenue	1,787,275	1,949,268
Transfers In	631,906	1,604,336
Total Revenue and Other Sources	\$ 18,584,379	\$ 20,584,677

Source: ConnectND Financials

Continued on the following page

Financials

Revenues and Expenditures

EXPENDITURES AND OTHER USES	JUNE 30, 2023	JUNE 30, 2022
Salaries and Benefits	\$ 15,331,007	\$ 14,755,700
Grants	6,059,386	5,758,138
IT - Equipment/Data Processing	1,806,763	904,193
Professional Fees - Consulting/Legal	1,451,270	2,542,293
Travel	612,157	539,146
Rent	453,484	552,806
Lab Supplies	420,563	309,704
Repairs	392,352	311,652
Equipment	376,552	341,721
Utilities	151,198	150,391
Dues/Training	123,170	127,416
Bond Payments	39,301	77,016
Miscellaneous - Supply/Postage/Printing/Insurance	653,260	548,949
Transfers Out	271,613	514,487
Total Expenditures and Other Uses	\$ 28,142,076	\$ 27,433,611

Source: ConnectND Financials

Appropriations

For the Biennium Ended June 30, 2023

	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATIONS
Expenditures by Line Item			
Salaries and Wages	\$ 33,192,142	\$ 30,086,210	\$ 3,105,932
Operating Expenses	13,107,788	11,420,087	1,687,701
Capital Assets	2,247,172	1,342,224	904,948
Grants	17,166,118	11,571,519	5,594,599
Totals	\$ 65,713,220	\$ 54,420,040	\$ 11,293,180
Expenditures by Source			
General	\$ 13,688,410	\$ 12,468,335	\$ 1,220,075
Other	52,024,810	41,951,705	10,073,105
Totals	\$ 65,713,220	\$ 54,420,040	\$ 11,293,180

Source: ConnectND Financials

Status of Prior Recommendations

Opportunity for Improved Inspection Control and Policies (Finding 2021-01)

Implemented

Recommendation: We recommend the Department of Environmental Quality evaluate policies and procedures to ensure they contribute to meeting the overall program objective. This includes modifying or implementing policies and procedures to ensure proper communication of inspection results, inspections verifying all required information, proper tracking and follow-up of noncompliance, and assignment of inspection duties among staff.

Status: Implemented. The Department updated its inspection procedures in multiple ways to address this recommendation. Inspections performed by department staff are no longer able to be completed with any field marked as “unknown” and any issue that is unable to be determined at the time of the inspection is followed up on prior to the inspection report being issued. The Department was also able to show that any non-compliance issues noted in inspections are being tracked in their enforcement tracking database. Lastly, the Department was able to show a large improvement in communicating inspection results. Inspectors documented any informal results given to facility staff at the time of inspection as well as reduce the average time to issue a report, as reports took an average of 18.8 days to issue in the current audit versus an average of 39 days to issue in the prior audit. All inspection reports in the current audit were also issued in under 30 days, which is the time required by the Standard Operating Procedure followed by the Department. The Department provided sufficient and appropriate evidence to support all elements of the recommendation.

Lengthy Application Review (Finding 2021-02)

Implemented

Recommendation: We recommend the Department of Environmental Quality develop procedures to review and approve all permits for special oilfield landfills within 120 days as required by N.D.A.C 33.1-20-03.1-04.

Status: Implemented. During the prior audit we found that permit applications approved during our audit period had a review period lasting between 419 and 1,585 days. The Department also had open applications that were under review for at least 240 days with no final determination made yet. The Department has since made final

determinations for these open applications as well as review new applications submitted in under the 120 days as required by code. The Department provided sufficient and appropriate evidence to support all elements of the recommendation.

Inadequate Permit Length Policy (Finding 2021-03)

Implemented

Recommendation: We recommend that the Solid Waste Program develop a policy that defines risk assessment procedures to use in determining the active length of approved permits.

Status: Implemented. The Department developed a new procedure that utilizes a base permit length of 10 years for facilities applying. The Department and its staff then assess any additional risk factors that should be considered against this base length. Risks that are considered significant can reduce the permit's active length. The considered factors are documented in the draft permit which also includes the proposed permit length by the Department and is made available to the public for review and comments prior to final approval. The Department provided sufficient and appropriate evidence to support all elements of the recommendation.



Office of the
State Auditor


NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION


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600 E. Boulevard Ave. Dept. 117 | Bismarck, North Dakota 58505


 [ND.gov/Auditor](https://nd.gov/Auditor)

 NDSAO@nd.gov

 701-328-2241

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