

H. CARL McCALL  
STATE COMPTROLLER



110 STATE STREET  
ALBANY, NEW YORK 12236

STATE OF NEW YORK  
**OFFICE OF THE STATE COMPTROLLER**

December 17, 2002

Ms. Erin M Crotty  
Commissioner  
Department of Environmental Conservation  
625 Broadway  
Albany, NY 12233-1060

Re: Report 2001-F-31

Dear Ms. Crotty:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we have reviewed the actions taken by officials of the Department of Environmental Conservation (Department) as of October 25, 2002, to implement the recommendations contained in our audit report, *Department of Environmental Conservation Revenue Controls and Collections* (Report 98-S-67). Our report, which was issued on April 18, 2000, examined the Department's controls over revenue and fines and fees collected from a variety of sources.

**Background**

The Department of Environmental Conservation is responsible for protecting and managing the State's environmental resources and for regulating the use of the State's fish and wildlife resources. The Department also regulates and monitors entities which create and discharge wastes, as well as those that handle, treat and/or dispose of environmentally sensitive materials.

The Department has seven program divisions, including the Division of Solid Waste and Hazardous Material and the Division of Environmental Remediation (DER). Regional office staff collects Hazardous Sub Bulk Storage (PBS) permit revenues, which totaled \$652,129 for the two fiscal years ended March 31, 2002. Petroleum facilities that have a bulk storage capacity of 400,000 or more gallons and that transfer oil into the State must pay PTS fees totaling 8.25 cents on each barrel transferred. Petroleum facilities with bulk storage capacity of less than 400,000 gallons must register with the Department and pay a Bulk Storage fee of up to \$250 every five years.

The Department conducts or oversees the cleanup of sites contaminated by hazardous wastes; 1986 Environmental Quality Bond Act funds pay for the cleanup, and the Department attempt to recoup the cleanup costs from the responsible party. The Bureau of Program Management within DER accumulates cleanup costs by site, bills the identified responsible parties who have signed

consent orders, and receives and accounts for monies collected. These program revenues also include monies collected by the State Attorney General, which, result from litigation.

### **Summary Conclusions**

In our prior audit, we identified several deficiencies in the Department's operating practices. We found that the Department's controls over revenue and collections had significant weaknesses. We also determined that the Department's revenue collection systems were cumbersome and outdated. We concluded that if certain processes were centralized and new technologies were implemented, the revenues would be better controlled, the collection process would be more efficient, and the payment function would be simpler for fee payers.

In our follow-up review, we found that the Department officials have made substantial progress in implementing the recommendations contained in our audit report. Department officials developed a strategic plan, assessed, implemented and monitored Internal Revenue controls.

### **Summary of Status of Prior Audit Recommendations**

Of the 11 prior audit recommendations, 10 were implemented and one was not implemented.

#### **Recommendation 1**

*Develop an integrated, Department-wide system of strategic planning to ensure efficient revenue-collection procedures.*

Status – Implemented

Agency Action – Department officials were able to provide us with documentation regarding their strategic plan and the portions of that plan, which address efficient revenue collection procedures. Implementation of the plan is underway to include the development of a Department-wide financial management information system (FMIS).

#### **Recommendation 2**

*Develop a strategic plan for the Division of Information Services, to ensure efficient Department-wide revenue information systems.*

Status – Implemented

Agency Action – The Department has developed a strategic plan for the Division of Information Services. The plan addresses Department-wide revenue information needs.

### **Recommendation 3**

*Provide internal control training to managers and supervisors who oversee revenue collection, and take actions to ensure they provide adequate supervision and oversight to each Department revenue collection location.*

Status – Implemented

Agency Action – The Department has taken the following steps to implement this recommendation:

1. Added a “Revenue Controls” section to the annual Internal Control Review forms. This section lists ten specific revenue controls that managers review and assess for each function of their bureau or program. All functions are reviewed annually.
2. Met with representatives of all Department Divisions and Regions to review and discuss the annual Internal Control Review process, including the added “Revenue Controls” section.
3. Created a series of web pages for the Department’s intranet site, which discuss the annual Internal Control Review and provided additional information and resources on internal controls.
4. Broadened the separation of duties in the DER hazardous waste (HW) cost recovery revenue collection process.
5. The Bureau of Spill Prevention and Response updated and redistributed procedures and began to more closely monitor each Regional office to ensure they were adhering to established revenue controls for Petroleum Bulk Storage registrations.

### **Recommendation 4**

*Update and redistribute general revenue procedures. Ensure managers are familiar with and have copies of these procedures, and are taking a preventive approach toward implementing them.*

Status – Implemented

Agency Action – The Department has not revised Chapter 500 of their Procedures Manual because of the many changes that will occur in revenue processing due to the implementation of the Department of Environmental Conservation Automated Licensing System (DECALS), Electronic Value Transfer Administrator (EVTA) applications such as Automatic Clearing House (ACH) debits and credit card usage, and finally, the acquisition of a new Department-wide financial management system, which is in process. New procedures will be issued when the new systems are operational.

The Department has an intranet site that contains information for employees. Management & Budget Services maintains a section of the site that contains Fiscal Bulletins on a number of subject areas including revenue processing. Fiscal Bulletins 93, 217, 257, 357, and 386

cover revenue processing. Bulletins are revised or added to the site as necessary and all revisions are sent to all employees by E-mail.

### **Recommendation 5**

*Take actions to ensure that annual internal control self-assessments are sufficiently detailed to consider and adequately assess all risks associated with each revenue-processing cycle.*

Status – Implemented

Agency Action – The Department has taken the following steps to implement this recommendation:

1. Added a “Revenue Controls” section to the annual Internal Control Review forms. This section lists ten specific revenue controls that managers use to consider and adequately assess all risks associated with each revenue-processing cycle of each function of their bureau or program. All functions are reviewed annually.
2. Met with representatives of all Department Divisions and Regions to review and discuss the annual Internal Control Review process, including the added “Revenue Controls” section.

### **Recommendation 6**

*Take actions to ensure appropriate Internal Audit resources are dedicated to reviewing controls for material revenue-processing cycles.*

Status – Implemented

Agency Action – An additional staff person had been assigned to the Department’s Office of Internal Audit and an audit of material revenue collection processes was conducted. The audit determined that the Department is now current with billings, reconciliation, etc.

The audit also determined that the Department is in the process of designing and implementing new procedures that should greatly increase the effectiveness and efficiency of its revenue collections.

### **Recommendation 7**

*Establish a system for periodically verifying the accuracy of reported barrels of petroleum transferred.*

Status – Not Implemented

Agency Action – Limited staff resources has delayed implementation of a system for establishing the accuracy of reported barrels. The Department is exploring the possibility of contracting for such audit services to determine if such an alternative would be feasible and cost effective.

### **Recommendation 8**

*Establish and maintain internal controls over the revenue processing cycles to address the control weaknesses identified, including:*

- *Requiring the first person in the collection process to account for each check (e.g., check log or receipt form) immediately upon receipt.*
- *Immediately stamping each check with an endorsement that specifies ‘For Deposit Only,’ as well as the bank account name and number, and the Department name.*
- *Documenting the transfer of responsibility for checks when they move from one employee to another.*
- *Taking action to ensure that all checks that are stored are secured in a locked safe.*
- *Changing the combination to the safe periodically, as well as each time someone leaves the unit or there is reason to suspect the combination has been divulged to unauthorized personnel.*
- *Separating receiving, accounting, and depositing functions and limiting access to persons who need the information and do not have conflicting duties.*
- *Reconciliation of revenue to accounts credited and to deposits made.*
- *Establishing adequate controls over access to electronic information.*

Status – Implemented

Agency Action – The Department’s Internal Control officer is responsible for oversight of the Internal Control Program. The Office of Internal Audit has placed Internal Control guidelines that cover recommendation 8 on their intranet WEB site. They have informed managers and supervisors that it is their responsibility to implement and maintain internal controls. In addition the Department’s Division of Management and Budget issues Internal Control Bulletins to managers and supervisors to correct weaknesses identified.

### **Recommendation 9**

*Take action to ensure regional offices deposit program revenues promptly and comply with Department guidelines for the timely remittance of these funds to the Revenue Unit.*

Status – Implemented

Agency Action – The Revenue Accounting Unit receives and monitors the monthly bank account statement reconciliation for the various regional and program bank accounts to ensure that the accounts are being cleared at the end of each required cycle. In some cases, procedures have been revised to require that selected facilities deposit directly to Central Office accounts.

Under the DECALS sporting license sales system, agent and officer accounts will have the sales amounts “swept” via ACH debits. The funds will be directly deposited to the central office account. This will greatly increase cash flow and the amount of interest earned for the special revenue accounts.

The Department will be accepting credit cards at 15 of the larger campgrounds. The proceeds of these sales will also be deposited directly into a central office account. This will expedite the receipt of funds and reduce the amount of cash that must be handled by the campgrounds.

#### **Recommendation 10**

*Regularly analyze accounts receivable for Inactive Hazardous Waste Disposal Site Remedial Program cost recoveries, and take timely action to follow up and collect payment from delinquent payers.*

Status – Implemented

Agency Action – The Department analyzes cost recovery accounts receivable, usually on an annual basis, and follows up as necessary.

#### **Recommendation 11**

*Assess the costs and benefits of available options to streamline revenue collections, including using: a lock box for more revenue remittances; electronic forms; and electronic commerce and electronic data exchange technologies.*

Status – Implemented

Agency Action – The Department has used a lockbox for the receipt of regulatory fees since 1983. They have also used a lockbox for the receipt of sporting license fees since the early 1990's. Due to poor service by the contractor, they were forced to terminate the service for sporting licenses in January 2002. DECALS, which is a new computerized system for issuing sporting licensees, was implemented August 26, 2002. The DEC Central Office account is credited through the use of ACH debits. Under DECALS municipalities will be given the option of accepting credit cards for license sales using the EVTA contract and provide them with favorable rates for the processing of transactions. Additionally, the Department feels the volume of Hazardous Waste cost recovery revenue transactions, approximately one per business day on the average, does not warrant a locked safe in DER.

The Department is evaluating each program in order to determine which ones can best be served through the implementation of other technologies. They are implementing credit card usage at 15 Department campgrounds this summer. In the fall, they plan to implement a new credit/debit card system at Belleayre Mt. Ski Center.

The Department is also discussing the consolidation of bank accounts and the direct deposit of Department funds into a few specific accounts to reduce delays in the deposit and transfer of funds.

The Department's new Financial Management System will contain a revenue module. Department officials state that they will continue to look for ways to modernize and improve the revenue receiving process as the system is being developed.

Major contributors to this report were Thomas Nowinski, Charles Krahula, and Bruce Brimmer.

We would appreciate your response to this report within 30 days, indicating any actions planned or taken to address any unresolved matters discussed in this report. We also thank the management and staff of the Department of Environmental Conservation for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,

Carmen Maldonado  
Audit Director

cc: Deirdre Taylor