

**FLORIDA**  
**DEPARTMENT OF ENVIRONMENTAL PROTECTION**  
**OFFICE OF INSPECTOR GENERAL**



**Internal Audit Section**  
**2600 Blair Stone Road, Mail Station 41**  
**Tallahassee, Florida 32399-2400**

**TITLE V PROGRAM COSTS**  
**FOR THE PERIOD**  
**OCTOBER 1, 2000 THROUGH SEPTEMBER 30, 2001**

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**DEPARTMENT OF ENVIRONMENTAL PROTECTION  
OFFICE OF INSPECTOR GENERAL  
November 10, 2003**

**Report No. IA-02-13-2003-064**

**SUBJECT**

Financial and compliance audit of Title V Program costs as reported by the Division of Air Resource Management and local government programs.

**SCOPE AND OBJECTIVES**

The scope of this audit includes the revenues and expenditures associated with the Department of Environmental Protection's (Department) and local program's operation of the Title V Stationary Source Program as approved by the Environmental Protection Agency (EPA). The audit period was October 1, 2000 through September 30, 2001. Section 403.0872, F.S. requires a biennial audit of the Department's Title V program to ascertain: "whether the annual operation license fees collected by the Department are used solely to support any reasonable direct and indirect costs."

Therefore, the objectives were to determine:

1. The total expenditures related to the Title V Program by both the state and local governments.
2. Whether the Title V Program revenues were sufficient to cover actual program costs.

**METHODOLOGY**

This audit was conducted under the authority of Section 20.055, Florida Statutes and was a component of our annual audit plan. The audit was conducted according to professional internal auditing standards published by the Institute of Internal Auditors and included tests of Department and local program records. OIG conducted interviews with Department air pollution control staff, program staff of contracted local government agencies, and staff of the Department's Division of Administrative Services. OIG also examined appropriate accounting and program records, and conducted other procedures considered necessary.

**BACKGROUND**

On October 25, 1995, the Department received interim program approval from the U.S. Environmental Protection Agency (EPA) to issue Title V permits pursuant to the Clean Air Amendments of 1990. To fund this program and be self-sufficient as required by Section 403.0872(11)(b), Florida Statutes, the Department implemented the collection of an annual fee on the emissions from each major source of air pollution within the state. The fee is based upon the source's previous year's emissions and must be calculated by multiplying the \$25 fee factor times the tons of each regulated air pollutant (except carbon monoxide) allowed to be emitted per hour by the source's most recent permit. This figure is then multiplied times the annual hours of operation allowed by permit condition. A maximum of 4,000 tons of each pollutant are subject to the fee.

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On October 31, 2001 the EPA granted the Department full program approval of the Title V Program. Section 403.0872(11)(b), F.S., requires that the fees collected must be sufficient to cover all reasonable direct and indirect costs necessary to develop and administer the major stationary source air-operation permit program in accordance with EPA regulations and guidelines. These costs shall include:

1. Reviewing and acting upon any application for such a permit.
2. Implementing and enforcing the terms and conditions of any such permit.
3. Emissions and ambient monitoring.
4. Preparing generally applicable regulations or guidelines.
5. Modeling, analyses, and demonstrations.
6. Preparing inventories and tracking emissions.
7. Implementing the Small Business Assistance Program.
8. Cost of the audit required by this statute.

**Note:** The Department has indicated that consistent with statutes and federal regulations Title V eligible costs should not include activities related to ambient air monitoring activities as such costs are not necessary for the issuance of Title V permits.

Also, Section 403.0872(11)(c), F.S., requires that an audit of the major stationary source air-operation permit program be conducted two years after the EPA has given full approval of the program. The purpose of the audit is to ascertain whether the annual operation license fees collected by the Department are used solely to support any reasonable direct and indirect costs as listed above. This audit must be completed every two years thereafter.

The Department contracts with six local programs to accomplish Title V activities within the state. These contracts are funded by the Title V fees (also referred to as Title V revenues). However, some local programs used additional local revenues, other than Title V fees, to cover air pollution control expenses. Some of these additional air pollution control expenses may address Title V program activities.

There are two key components to the Title V program: permitting activities and compliance inspections. Title V sources within the state can obtain either a Title V general permit or a major source Title V permit. Those that meet certain criterion established by rule are called “area sources” and are entitled to operate under a general permit. One example of an area source is drycleaners. Those Title V sources that do not meet the general permit criterion (not area sources) are required to obtain a major source Title V permit.

Permitting activities:

According to Division staff, a total of 613 area source and major source Title V permits were issued during the audit period. Of these, 581 were handled by the Department and 32 were handled by the local programs. General permits for area sources are strictly handled by the Department’s Tallahassee office. The Department had 440 area sources obtain general permits during this period. The local programs took 32 permitting actions on major source Title V permits. The Department took 141 permitting actions on major source Title V permits.

The Title V permitting activities are dependent upon a number of factors such as: where the major source Title V permits are in the renewal process (required to renew every 5 years), the number of construction or modification activities that required action on the major source Title V permits, and miscellaneous revisions and administrative corrections.

Title V inspection activities:

There were 1,186 area sources and 433 major sources inspected during the audit period. Local Programs inspected 849 area sources and 175 major sources. The Department inspected 337 area sources and 258 major sources. A total of 1,619 area and major source inspections were completed.

The Department and its approved local programs track and monitor these inspections as follows:

- The inspector downloads the facility information from the Division's database prior to conducting the inspection.
- The inspector visits the facility and performs a walk through inspection.
- The inspector returns to the office and finalizes the inspection report.
- The inspector uploads the compliance data into the database and forwards any violations found during the inspection to enforcement.
- Division management reviews the data for quality and omissions.
- The data is uploaded to the EPA's database in compliance with the Title V implementation agreement.

## CONCLUSION

OIG found that Title V revenues were being used for direct and indirect costs related to the Title V program. However, improved tracking is needed to ensure that Title V fees collected are used solely for direct and indirect program expenses.

OIG concludes that the fee revenue was sufficient to cover the cost of the Title V Program activities. The table below shows the excess of Title V fee revenue over program costs as well as the revenue and expenditures for the audit period. OIG believes that the surplus may be overstated for two reasons. First, local programs, in some cases, expend their own funds (i.e. non-Title V fees) to pay for additional Title V program expenses above their contract amount. Because these additional expenses are not reimbursed with Title V fees pursuant to contract, the analysis includes program costs with and without these expenses. Second, several local governments reported indirect cost rates that were substantially below the Department's indirect cost rate due to statutory limitations and rates limited by contract negotiations and historical precedent.

The following chart depicts the Title V Program's revenue and expenditures for the period October 1, 2000 through September 30, 2001.

**SUMMARY OF TITLE V PROGRAM  
REVENUE AND EXPENDITURES**

<b>Total Title V Revenue</b>	<b>\$10,400,136</b>
<b>Less Title V Expenditures From Title V Fees</b>	<b>\$9,039,974</b>
<b>Surplus</b>	<b>\$1,360,162</b>

- Totals include audit adjustments.
- Revenue amounts were derived from FLAIR (Florida Accounting Information Reporting System), the State's audited accounting information system.
- See the Table in first finding for the expenditures reported for the various categories.

OIG's findings and recommendations are discussed in the remainder of the report.

## FINDINGS AND RECOMMENDATIONS

### 1. Improved tracking is needed to ensure that Title V fees collected are used solely for direct and indirect program expenses.

The table below represents the total revenue and expenditures of the Department and County programs for the audit period October 1, 2000 through September 30, 2001:

CATEGORY	DEPARTMENT	LOCALS	BROWARD	DADE	DUVAL	HILLSBR	PALM BCH	PINELLAS
Salaries	\$ 2,440,184	\$1,431,504	\$ 146,441	\$189,740	\$496,090	\$371,246	\$ 85,882	\$ 142,105
Fringe/Benefits	\$1,336,448	\$ 409,910	\$ 60,777*	\$ 65,271	\$ 49,010	\$164,759	\$ 24,905	\$ 45,188
OPS Wages	\$ 30,754	\$ 2,594	\$ 2,434	\$ -	\$ -	\$ -	\$ -	\$ 160
Total Wages	\$ 3,807,386	\$1,844,008	\$209,652	\$255,011	\$545,100	\$536,005	\$ 110,787	\$ 187,453
Add:								
Other Direct Expenses	\$ 374,258	\$ 252,174	\$ 81,387	\$ 19,270	\$ 56,905	\$ 75,826	\$ 13,559	\$ 5,227
Add GR Service Charge	\$ 728,010							
Total Direct Expenditures	\$ 4,909,654	\$2,096,153	\$291,039	\$274,281	\$602,005	\$611,833	\$124,346	\$192,680
Indirect Expenses	\$ 1,781,452	\$ 258,023	\$ 35,327	\$ 89,938	\$ 22,557	\$ 61,186	\$ 6,215	\$ 42,800
Audit Adjustment		(5,337)					\$ (5,337)	
Total Program Cost	\$ 6,691,106	\$2,348,868	\$ 326,366	\$364,219	\$624,562	\$673,017	\$ 125,224	\$235,480
Combined Costs from Title V Fees	\$ 9,039,974							
Combined Title V Revenue	\$ 10,400,136							
Surplus with Title V Fees:	\$ 1,360,162							
Additional Title V Costs from non-Title V Fees	128,725			70,158		58,567		

\*- Amount includes the audit adjustment to include the County's leave.

- For Department information, salary and direct cost information was derived from Flair expenditure reports. Local program information was derived from verified accounting records including timesheets, payroll registers and invoices supporting direct costs.
- Indirect Cost data amounts were determined from computations using approved indirect cost rates.

### 2. Department and county programs need to improve their accounting for costs.

Section 403.0872 (11)(b) 8, Florida Statutes requires that the fee revenue derived from the regulated community be used for only Title V activities. In assuring that the Title V fees are used solely for Title V activities, it is important that the Department and local programs document how the Title V fees are reimbursed under the contracts. It would also be helpful to document those Title V program expenses that are paid directly by local programs (not from Title V fees). OIG found the following conditions:

- a) DEP's controls for preventing the expenditure of Title V fees on non-Title V activities could be improved. As noted in our background section, the program maintained a surplus of approximately \$1.2 million. However, the DEP did not maintain a reserve in the Air Pollution Control Trust Fund to safeguard this surplus. During the audit period, approximately \$4,783,590 was expended from

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- the Air Pollution Control Trust Fund on non-operating categories including transfers to the Department's Administrative and Environmental Lab Trust Funds. Although there were adequate fees from other sources to pay for these transfers (the unreserved fund balance of the trust fund on September 30, 2001 was \$24,452,674), controls would be enhanced by establishing a reserve in the Air Pollution Control Trust Fund.
- b) Several local programs did not include all their Title V costs from their accounting system:
- Broward County did not use a rate for leave accrual. It has subsequently been determined to be 13.29% and resulted in an audit adjustment of \$23,186 which was added to the fringe/benefits in Table 2 above.
  - Dade County is using a County indirect rate of 12.8% derived from 1993-1994 data; this needs to be updated. The total indirect rate for Dade County was 47.39%. The County reported expenditures of \$70,158 for Title V program activities above what was reimbursed by the Department.
  - Duval County used 1998-1999 time records to determine the use of 10 Full Time Equivalent (FTE) positions at 100% of their salaries. Time records were not available during the audit period to support the costs for these 10 positions. The County did not charge the DEP for pension costs.
  - Hillsborough County expended \$58,566 of their own, non-title V fee funds for Title V program activities.
  - An audit adjustment of (\$5,337) was needed to bring costs in alignment with official State accounting records due to disallowed costs for the Palm Beach County program.
  - Pinellas County uses a 31.2% indirect cost rate and the County also pays for Title V activities out of their general revenue and trust funds.

The Certified Public Accounting firm KPMG Peat Marwick, employed to perform an audit of Title V revenue and expenditures in September 1994, noted similar findings that resulted in the use of estimates in order to reach an opinion on the sufficiency of revenue to cover program expenditures.

The Department anticipates a reduction in Title V fees over the next several years due to decreasing air emissions. Currently, most of the large air pollutant emitting power plants utilize the 4,000 ton cap from Section 403.0872(11)(a)6, F.S., in calculating their emissions fees. Emissions of sulfur dioxide (SO<sub>2</sub>) and nitrogen oxides (NO<sub>x</sub>) from the large power plants typically exceed the cap. As these large emitting power plants are replaced with cleaner, more efficient units, emissions from each plant will decrease well below the 4,000 ton cap. For example, under the TECO-Gannon project SO<sub>2</sub> emissions will decrease from 51,500 tons/year to 500 tons/year and NO<sub>x</sub> emissions will decrease from 22,000 tons/year to 1,000 tons/year. Fees from the new Gannon plant (Bayside) will decrease approximately \$162,500. The Department anticipates similar decreases in revenues from other replacement plants. Florida Power & Light (FPL) Company's statewide emissions of SO<sub>2</sub> and NO<sub>x</sub> declined by 60,000 and 10,000 tons, respectively, between 2001 and 2002. Specifically, fees will decrease from the FPL-Sanford Plant by approximately \$124,000 and the FPL-Ft. Myers Plant by approximately \$150,450. Emission fee reductions from these three plants alone equals approximately \$436,950.

## RECOMMENDATION

To provide accurate cost information and ensure the integrity of the Title V Program as required by Florida Statutes, the Department and local programs should update and improve their accounting methods to include all the costs associated with the Title V program. These costs could be distinguished between those funded by Title V fees and those that are covered by local program expenses.

The Division should ensure that an adequate reserve account is maintained in the Air Pollution Control Trust Fund to account for Title V fees. In addition, the Division should require local programs to adequately document costs including maintaining adequate time records relating to costs charged, provide guidance to local programs on what Title V costs are eligible as necessary costs related to Title V permitting; and to require local programs to submit indirect cost plans consistent with standards provided by Federal Indirect Cost Guidelines.

**This audit was conducted by William R. Flowers, Professional Accountant Specialist (Retired).**

**Supervised by:**

**Approved by:**

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**Greg White**  
**Audit Administrator**

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**Joseph Aita**  
**Director of Auditing**