



County of Allegheny

Office of the Controller

INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

ALLEGHENY COUNTY HEALTH DEPARTMENT
TITLE V AIR QUALITY FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

ISSUED: AUGUST 26, 2016

Chelsa Wagner
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CHELSEA WAGNER
CONTROLLER

COUNTY OF ALLEGHENY

OFFICE OF THE CONTROLLER

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August 26, 2016

Dr. Karen Hacker
Director
Allegheny County Health Department
542 4th Avenue
Pittsburgh, PA 15219

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Dear Dr. Hacker:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Title V Air Quality Fund financial statements of the Allegheny County Health Department ("ACHD") as of and for the year ended December 31, 2015, and have issued our report thereon dated August 26, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered ACHD's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ACHD's internal control. Accordingly, we do not express an opinion on the effectiveness of ACHD's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described in item 15-02 in the accompanying Schedule of Findings and Responses that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ACHD's Title V Air Quality Fund financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 15-01.

Allegheny County Health Department's Response to Findings

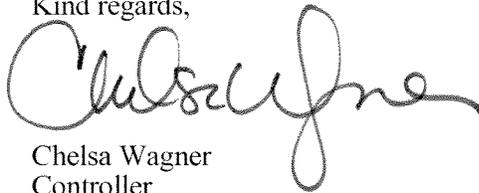
The ACHD's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The ACHD's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Dr. Karen Hacker
August 26, 2016

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kind regards,



Chelsa Wagner
Controller



Lori Churilla
Assistant Deputy Controller, Auditing

cc: Honorable John DeFazio, President, County Council
Honorable Nicholas Futules, Vice President, County Council
Honorable Rich Fitzgerald, County Executive
Ms. Jennifer Liptak, Chief of Staff, County Executive
Mr. William McKain, County Manager, Allegheny County
Ms. Mary Soroka, Budget Director, Allegheny County
Mr. Joseph Catanese, Director of Constituent Services, County Council
Mr. Walter Szymanski, Budget Director, County Council
Mr. Ronald Sugar, Deputy Director, ACHD
Mr. James Thompson, Deputy Director - Environmental Health, ACHD

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ALLEGHENY COUNTY HEALTH DEPARTMENT
TITLE V AIR QUALITY FUND
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2015

FINDING 15-01 FAILURE TO ISSUE OR DENY TITLE V PERMITS WITHIN 18 MONTHS

Criteria: Title V Section 503(c) of the Clean Air Act indicates that permitting authorities “shall approve or disapprove a completed [Title V operating permit] application, and shall issue or deny the permit, within 18 months after the date of receipt thereof.”

Condition: A “major source” is generally a stationary source of air pollutants that directly emits or has the potential to emit 100 tons per year of any air pollutant, or 10 tons per year of any hazardous air pollutant, or 25 tons per year of a combination of hazardous air pollutants.

We found that the ACHD has not issued or denied the Title V permit within 18 months of the receipt of the permit application for nine out of the ten (90%) Title V major sources tested.

- The ACHD has not issued or denied the Title V permit for two of the major sources: Eastman Chemical Resins and Allegheny Ludlum. These applications were received in 1995 and 2013 respectively.
- The Title V permit has expired for three of the major sources: Buckeye Pipeline LLC, USS Irvin, and Bay Valley, and the new Title V permit was not issued or denied within 18 months of the permit application. The applications for Buckeye Pipeline and USS Irvin were received in 2011 and 2009. Bay Valley submitted a renewal application 2009; however, the Title V permit was not issued or denied. Bay Valley submitted a second renewal application in October 2015. ACHD has 18 months to issue or deny the Title V permit for this application.
- For the remaining four major sources, USS Clairton Works, Neville Chemical, Chambers Monroeville Landfill, and the University of Pittsburgh, the current Title V permit has not yet expired. However, it was not issued within 18 months of the permit application.

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ALLEGHENY COUNTY HEALTH DEPARTMENT
TITLE V AIR QUALITY FUND
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2015

**FINDING 15-01 FAILURE TO ISSUE OR DENY TITLE V PERMITS WITHIN
18 MONTHS (CONTINUED)**

- Instituting measures to improve the productivity and accountability of the permitting section. Specifically, ACHD management should:
 - Establish deadlines for each phase of work to be performed by engineers in the permitting section.
 - Ensure that formal ACHD requests for additional information from major sources are made timely (when the need for additional information is determined).
 - Require the engineers to submit progress reports on a weekly basis, and review the reports to identify any performance improvement opportunities.
 - Review time records on a routine basis to help evaluate the efficiency of the engineers.
 - Improve the transparency of the permitting process to enhance productivity and accountability.
- Issuing Title V permits or denying Title V permit applications within 18 months as required by the Act.

Management's
Response:

See page 9 for management's response.

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ALLEGHENY COUNTY HEALTH DEPARTMENT
TITLE V AIR QUALITY FUND
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2015

FINDING 15-02 FAILURE TO PERFORM YEAR-END INTERNAL CONTROL REVIEW PROCEDURES

Criteria: Management’s ability to fulfill its financial reporting responsibilities depends in part on the design and effectiveness of the processes and safeguards it has in place over accounting and financial reporting. Control procedures are a key component of an entity’s internal control over financial reporting, and review procedures are an important component of control procedures.

Condition: The ACHD Fiscal Manager that serves as the accountant for the Title V Air Quality Fund did not perform adequate year-end review procedures to detect misstatements in the Fund financial statements for the year ended December 31, 2015. As a result, several accounting errors occurred and were not detected and corrected by ACHD:

- Title V Fund expenditures were understated by \$22,825 because the Title V share of certain salaries and fringe benefits was not charged to the Title V Fund.
- Title V Fund expenditures were overstated by \$4,735 because a portion of certain salaries and fringe benefits that did not relate to the Title V Fund was charged to the Title V Fund and not reversed.
- Expenditures for salaries of \$257 that related to the Title V Fund were not charged to the Title V Fund.

Cause: The ACHD Fiscal Manager did perform certain year-end review procedures, but did not perform all of the required duties she needed to perform as the accountant for the fund. This finding was also reported in the prior year report.

Effect: Material misstatements could have occurred and could occur in future years without being detected and corrected by ACHD given the lack of adequate year-end review procedures.

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ALLEGHENY COUNTY HEALTH DEPARTMENT
TITLE V AIR QUALITY FUND
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2015

**FINDING 15-02 FAILURE TO PERFORM YEAR-END INTERNAL CONTROL
REVIEW PROCEDURES (CONTINUED)**

Recommendation: ACHD should develop policies and procedures for the performance of appropriate year-end review procedures to detect and correct misstatements in the Title V Air Quality Fund. At a minimum, these procedures should involve:

- Scanning of the general ledger to identify potential accounting errors for further review.
- An analysis of the accrued payroll and related accounts to ensure that the balances include all accrued payroll at year-end and only the accrued payroll at year-end.
- An analysis of the salaries, fringe benefits, and other payroll-related accounts to ensure that all payrolls and cross-charges have been posted properly.
- Maintaining a list of accounts payable, accrued liabilities, and related payables accounts not recorded in the County’s accounting system at year-end to ensure amounts are properly included in the Title V Fund financial statements.
- An analysis of the “due to/from other funds” account in the County’s accounting system to ensure that the balances of the due to other funds and due from other funds accounts are properly recorded in the Title V Fund financial statements.

ACHD management should also take steps to ensure that the year-end review procedures are routinely performed. Include the year-end review procedures in ACHD’s accounting policies and procedures manual to facilitate the performance of appropriate year-end review procedures. This will provide clarity about the necessary procedures for the accounting staff and provide management with the basis for an effective review.

Management’s
Response:

See page 9 for management’s response.

COUNTY OF



ALLEGHENY

RICH FITZGERALD
COUNTY EXECUTIVE

August 26, 2016

Chelsa Wagner
Controller
County of Allegheny
436 Grant Street
Pittsburgh, PA 15219

Dear Ms. Wagner,

Please find attached the Allegheny County Health Department's responses to the findings identified in your recent audit of the Title V Air Quality Fund. If you have any questions or need any additional information, please let me know.

Sincerely,

A handwritten signature in blue ink, appearing to read 'KAH'.

Karen A. Hacker, MD, MPH
Director – Allegheny County Health Department



KAREN HACKER, MD, MPH, DIRECTOR
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FINDING 15-01 – FAILURE TO ISSUE OF DENY TITLE V PERMITS WITHIN 18 MONTHS

ACHD Response:

The requirement to pay Title V emission fees depends on whether a source needs a major source permit, rather than whether the source has been issued a permit. The amount of the emission fees are based on annual actual emissions, which is information not included in the permit. Thus, the issuance (or late issuance) of a permit has no direct or material effect on the determination of financial statement amounts subject to this financial audit. However, the late issuance of permits is of concern to the ACHD.

The ACHD makes every effort to issue permits in a timely manner. It should be noted that the requirement for Title V permit issuance is based on receipt of an “administratively complete” application, one that contains all the elements required of a source as included in Allegheny County Article XXI Rules and Regulations (Article XXI) §2103.11 and §2103.21. Most applications received are not administratively complete, and require significant re-requests for information. It should be noted that permit applications for Title V sources can be several hundreds of pages of detailed information.

Most state and local air agencies have similar issues with late issuance of Title V permits. ACHD has regular conference calls with the Environmental Protection Agency (EPA) regarding the progress of unissued Title V permits; EPA has found the schedules to be acceptable. Many deadlines set in the 1990 Clean Air Act Amendments have been difficult in implementation for both the EPA and state and local agencies.

ACHD agrees that a tracking system is needed. A software engineer hired in 2015 left the agency. We are in the process of filling this position. An improved tracking system will make it easier for the agency to return incomplete applications when additional information is not forthcoming, and also to evaluate the progress of each permit engineer. In addition, the Department agrees that the permitting engineers need to do a better job on follow-up to get the information they need, and, when necessary, return incomplete applications. ACHD regularly addresses the issue of follow-up and permit issuance in engineering performance reviews and will continue to monitor this closely. ACHD is also evaluating the need for additional staff to improve issuance rates along with other obligations such as installation permits, permit determinations, and engineering evaluations.

Although, due to late issuance of permits, two sources may forgo submitting an annual certification of compliance referred to in the Effect Section, they must submit numerous other reports and testing results that determine compliance.

For specific sources addressed in this audit that do not have major source permits:

ACHD received an updated permit application from Bay Valley on 10/8/15. The 18-month deadline for that permit is April 8, 2017 and the ACHD is on track to meet that date.

Because of a federal consent decree Eastman Chemical continues to be evaluated by EPA and ACHD. As part of the settlement Eastman is required to submit a new permit application once source testing results are approved. It is expected that Eastman will have an updated permit application to ACHD in 2017.

Allegheny Ludlum is in progress and is expected to be in public comment in approximately 3 months. USS Irvin Works renewal is also in progress and is expected to be issued before 2017. The Buckeye Pipeline LLC Title V permit was delayed while the source pursued a significant expansion project. The permit is back on schedule.

As indicated by the auditors, four of the ten sources are not expired (USS Clairton, Neville Chemical, Chambers Landfill and Pitt.)

FINDING 15-02 – FAILURE TO PERFORM YEAR-END INTERNAL CONTROL REVIEW PROCEDURES

ACHD response:

ACHD agrees that year-end review procedures are vital to detect and correct misstatements in the Title V Air Quality Fund financial statements. In an effort to continue to strengthen our internal controls around the year end closing process, ACHD will schedule a year end pre-close meeting with the appropriate personnel in the Accounting Department. The purpose of this meeting will be to ensure any new or existing procedures surrounding accruals, encumbrances and post-closing entries are followed and any resulting adjustments are included in the year end balances.

ACHD will also modify its existing year end process to ensure all payroll related accruals and cross charges are appropriately posted and reconciled to internal source documents.

Lastly, ACHD will update its internal Accounting Policies and Procedures manual to address these items to eliminate potential misstatements.