



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, 2014**

ISSUED: AUGUST 27, 2015

**Chelsa Wagner
Controller**

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August 27, 2015

Dr. Karen Hacker
Director
Allegheny County Health Department
542 4th Avenue
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**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, 2014, and have issued our report thereon dated August 27, 2015.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Responses, we identified a deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 14-02 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 14-01.

Allegheny County Health Department's Response to Findings

The Allegheny County Health Department's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The Allegheny County Health Department'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 27, 2015

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, 2014

FINDING 14-01 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 determined that Koppers Inc. Clairton Tar Plant (“Koppers Clairton”), one of five major sources in Allegheny County during 2014 (20%) selected for a permit issuance test we conducted, has not been issued a Title V permit by the Allegheny County Health Department. Since 1995, Koppers Clairton has been classified by ACHD as a Title V major source, has conducted operations, has been invoiced for Title V emissions fees, and has paid those fees. We expanded our testing sample and applied additional procedures to determine whether the failure to issue (or deny) a Title V permit that we noted was an isolated incident. As a result of the additional procedures we performed, we identified four additional Title V major sources for which ACHD has not issued or denied Title V permits within 18 months of the receipt of the permit application: Allegheny Ludlum LLC, US Steel Edgar Thompson Plant, Neville Chemical Company, and Eastman Chemical Resins, Inc. Three of the Title V permit applications submitted by these major sources (or the previous owners) were received by ACHD in 1995, and one was received in 1999.

Cause: It appears that a significant cause of this condition is the manner in which ACHD processes the Title V permit applications it receives. ACHD does not have an effective system in place to track delays in the provision of information requested from major sources in order to process Title V permit applications. Consequently, ACHD cannot

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SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2014

**FINDING 14-01 FAILURE TO ISSUE OR DENY TITLE V PERMITS WITHIN
18 MONTHS (CONTINUED)**

effectively hold major sources accountable for complying with requests for additional information within a reasonable period of time. Denying Title V permit applications when major sources do not provide ACHD with the information it needs in order to make a determination in a reasonable period of time would facilitate ACHD's compliance with Title V Section 503(c) of the Clean Air Act. Aside from an inability to effectively hold major sources accountable for the timely provision of needed information, ACHD has historically refrained from denying Title V permit applications because it is aware that doing so would further delay permit issuance and ultimately require both the major sources and ACHD to expend more time and money on the permitting process. ACHD also believes that developing good working relationships with the major sources during the permitting process facilitates future major source compliance with the Clean Air Act and ACHD's air quality program regulations.

There are a number of other issues that appear to have delayed the issuance of Title V operating permits over time. We were advised by ACHD management that ACHD was not recognized as a permitting agency as described in the Clean Air Act until 2001, and as such, ACHD was unable to issue Title V operating permits until 2001. This condition explains why Title V operating permits were not issued by ACHD prior to 2001, but does not explain why Title V operating permits have not been issued since 2001 for the five major sources identified in the condition (above).

We were also advised by ACHD management that ACHD prioritizes the issuance of installation permits. If installation permit applications are not addressed by ACHD in a timely fashion, it can prevent businesses from installing equipment needed for use in their operations. Major sources must modify their Title V permit applications to account for emissions to be generated by new equipment in their Title V permit applications, which typically also

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SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2014

**FINDING 14-01 FAILURE TO ISSUE OR DENY TITLE V PERMITS WITHIN
18 MONTHS (CONTINUED)**

lengthens ACHD's technical review process for the Title V permit applications.

ACHD management also asserts that major-source-specific issues are preventing ACHD from issuing several of the Title V operating permits. For example, Eastman Chemical Resins, Inc. is subject to a federal consent decree. Under the consent decree, the company is required to conduct testing of all of its emissions points. The test results will lead to the development of emissions limits, which are required to be incorporated into the Title V permit when issued. Given circumstances such as this, the only way ACHD would have been able to comply with Title V Section 503(c) of the Clean Air Act would have been to deny the Title V permit application.

We considered whether the manner in which ACHD manages its permitting section could also cause unnecessary delays in the processing of Title V permit applications. We interviewed ACHD management to gain a better understanding of its management practices, and we noted several negative aspects of ACHD's management that suggest that improvement can be achieved:

- While ACHD has established goals and/or policies for the completion of certain tasks within specified timeframes, internal deadlines are not routinely established for each phase of work to be performed by the engineers.
- While ACHD management does meet with permit engineers periodically to discuss the status of projects, the engineers are not required to provide management with regular written status reports.

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SCHEDULE OF FINDINGS AND RESPONSES
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**FINDING 14-01 FAILURE TO ISSUE OR DENY TITLE V PERMITS WITHIN
18 MONTHS (CONTINUED)**

- ACHD management will review the time sheets submitted by permit engineers if circumstances arise that lead management to believe that a productivity issue exists, but there is no routine process in place to evaluate the efficiency of the permit engineers.

Effect: As a result of this condition, ACHD has not complied with Title V Section 503(c) of the Clean Air Act.

The Clean Air Act, Title V Section 503(d), contains an “application shield” that protects major sources that have filed a timely and complete permit application, but only if the major sources submit any additional information requested to process the permit applications in a timely fashion. Since ACHD does not have an effective system in place to track delays in the provision of information requested from major sources, major sources that do not provide the needed information timely are not being held accountable. In addition, the issuance of Title V permits to major sources is what triggers the requirement for the major sources to certify at least annually that they are Title V compliant. When Title V permits are not issued timely by ACHD, major sources can avoid providing the certifications.

Recommendations: We recommend that ACHD management take measures to bring ACHD into compliance with the Clean Air Act. This should involve:

- Implementing an effective system to track ACHD information requests from major sources and major source response times to help ensure the timely receipt of information which facilitates the permitting process.

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SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2014

**FINDING 14-01 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 12 for management's response.

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SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2014

FINDING 14-02 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, 2014. As a result, several accounting errors occurred and were not detected and corrected by ACHD:

- Title V Fund expenditures were understated by \$30,670 because entries to record accrued expenses at year-end were not booked.
- Title V Fund expenditures were understated by \$24,219 because the Title V share of approximately eight months of the salaries and fringe benefits of two clerical staff were not charged to the Title V Fund.
- Expenditures for contracted services of \$6,225 that did not relate to the Title V Fund were charged to the Title V Fund.

Cause: It appears that the Fiscal Manager was not aware of all of the duties that she was expected to perform as the accountant for the Fund.

Effect: Although the accounting errors in the aggregate were not material to the Fund financial statements as of and for the year ended December 31, 2014, it is possible that 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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SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2014

FINDING 14-02 FAILURE TO PERFORM YEAR-END INTERNAL CONTROL REVIEW PROCEDURES

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.
- Analysis of the balances due to and from other funds, and measures to liquidate interfund balances that can be liquidated prior to year-end.
- Analysis of the accounts payable, accrued liabilities, and related payables accounts at year-end to ensure that the balances include all of the payables at year-end and only items that are payable at year-end.
- 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.
- Analysis of the salaries, fringe benefits, and other payroll-related accounts to ensure that all payrolls and cross-charges have been posted properly.

ACHD management should also take steps to ensure that the year-end review procedures are routinely performed. Including the year-end review procedures in ACHD's accounting policies and procedures manual would facilitate the performance of appropriate year-end review procedures, as it would provide clarity about the necessary procedures for the accounting staff and provide management with the basis for an effective review.

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SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2014

**FINDING 14-02 FAILURE TO PERFORM YEAR-END INTERNAL CONTROL
REVIEW PROCEDURES**

Management's
Response:

See page 12 for management's response.

COUNTY OF



ALLEGHENY

RICH FITZGERALD
COUNTY EXECUTIVE

August 27, 2015

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 black ink, appearing to read 'KA Hacker', written over a light blue circular stamp.

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



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FINDING 14-01 – FAILURE TO ISSUE OF DENY TITLE V PERMITS WITHIN 18 MONTHS

ACHD response:

ACHD agrees that timely issuance of Title V permits is an important function of the Department and recognizes the need for improvement. As a result, several measures have already been implemented prior to this audit and additional measures will be applied to increase staff productivity and accountability, and to hold the air pollution sources accountable for providing necessary information during the permitting process. These improvements are outlined below. However, it should be noted that Title V permits do not create any new substantive requirements for sources. Sources operating without an issued Title V permit are still required to comply with terms set in previous installation/operating permits, as well as, all other applicable regulations and are inspected regularly by ACHD inspectors. As a result, the late issuance of the five permits identified in the audit has not allowed the sources to freely operate in violation of Federal, State, and Local air pollution regulations. Furthermore, the late issuance has no bearing on the emissions fees collected and spent as part of the Title V program or the regulations concerning the collection or disbursement of funds.

In its most recent national review, the Environmental Protection Agency found that across the Country, it is not unusual for extenuating circumstances to delay the issuance of a Title V operating permits. Incomplete permit applications and the subsequent appeals to, and negotiations with, applicants to obtain required information are the primary contributors to delay. The time required to obtain additional information from applicants, identified during the administrative completeness review or technical review, is an external factor that can significantly impede the timeliness with which a permit writer can begin or complete the permit drafting process. Unfortunately, there is currently little incentive for the source to return the information promptly. All of these factors have impacted the five permit applications identified in the audit.

Resolving complex compliance issues is also a factor in two of the un-issued permits. Federal regulations require a source to be in compliance, or have a full compliance plan, in order to issue a Title V permit. For example, Eastman Chemical is currently operating under the terms of a Federal Consent Decree, which requires, among other things, a multi-year emission testing program to identify and set appropriate pollution emission limits on the facility. ACHD is unable to issue an operating permit until this testing is complete and a revised application is submitted by the company. In the case of Allegheny Ludlum, the company has not been able to provide a satisfactory testing methodology for demonstrating compliance with all regulations. This is primarily due to large, complex exhaust piping which is not readily accessible for emission testing and variable operations.

Finally, all of the sources in the Title V backlog have significantly modified operations and/or installed new equipment. Each of these modifications required the issuance of an installation permit prior to construction. It has been the policy of the Department to prioritize issuance of installation permits promptly, since installation, rather than operating, permits affect the actual operation of a source, and the new installation permit would require a revision to the Title V permit. The same engineer normally works on both, so Title V permits are set aside to evaluate new, proposed equipment changes, as well as finishing the work on other Title V sources. The following lists the number of installation permit applications by source received during the period of 1997 - 2015:

<u>Source</u>	<u>Applications Received</u>
Neville Chemical	10
Koppers	9
Allegheny Ludlum	8
USS Edgar Thomson Works	5
Eastman	20

Measures Implemented Prior to Audit

Recognizing a need to address factors that were preventing timely issuance of Title V Permits, ACHD has implemented the following measures earlier this year:

- Management-By-Objectives was initiated Department-wide in 2014. Specific goals and timeframes have been assigned to each Permit Engineer and are measured in their annual performance appraisal.
- Engineering Section staff members were reassigned so that 2 engineers could focus on the five major sources that do not have a Title V permit; all minor sources were reassigned to the other five Engineers.
- Bi-weekly meetings were put into place to assure that staff members were current in permitting and regulatory requirements. Staff have begun giving updates during these meetings on permit issuance progress.
- Every two weeks the Engineering Section Head conferences with EPA permitting staff to discuss the status of unissued Title V permits.
- ACHD Air Quality has recently hired a Software Engineer. His primary task for 2015 is to significantly modify or replace the current permit tracking system to provide needed permit tracking and staff workload balancing.

The implementation of these improvements have resulted in significant progress on the Permit backlog. Edgar Thomson and Neville Chemical permits have been through the public comment period and public hearing, and the comment/response document has been written for both. The Neville Chemical permit is at EPA for the required 45-day final review. The Edgar Thomson permit will soon follow. The Koppers permit has been drafted and has been reviewed by the company. It will be ready for public comment in approximately 3 weeks. Allegheny Ludlum staff will soon be provided a draft permit for review. Drafting of the Eastman Chemicals & Resins permit is on hold, pending review and approval of results from testing performed this summer and the subsequent submission of the revised application by the company.

Additional Measures to be implemented

- As recommended in the audit findings, Permit Engineers will be required to provide regular written status reports to track progress on all permits. In addition, hours spent on all the various activities will be tracked.
- Enforcement actions will be taken on companies that are uncooperative or uncommunicative during the permit process.
- All permitting procedures and resource requirements will be reviewed, to streamline the overall permitting process in order to focus efforts on Title V sources.
- Once completed, the new permit tracking system will be utilized to balance resources and increase accountability.

FINDING 14-02 – 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. Although the accounting errors, in the aggregate, were not material to the Fund financial statements as of and for the year ended December 31, 2014, ACHD will modify its procedures to minimize the potential for larger accounting errors. The following procedures will be implemented:

- 1) An analysis of due to and from other funds will be conducted by a Fiscal Officer and reviewed by the Fiscal Manager prior to year end.
- 2) An analysis of accounts payable and accrued liabilities will be conducted to ensure that balances include all appropriate payables at year end. This analysis will be conducted by a Fiscal Officer and signed off on by the Fiscal Manager.
- 3) An analysis of accrued payroll and related accounts will be conducted to ensure that balances include all of the appropriate payroll at year-end. This analysis will be conducted by a Fiscal Officer and signed off on by the Fiscal Manager.
- 4) An analysis of salaries, fringe benefits, and other payroll related accounts will be conducted to ensure that all payroll and cross-charges have been properly posted. This analysis will be conducted by a Fiscal Officer and signed off on by the Fiscal Manager.
- 5) The Fiscal Manager and/or the Fiscal Officer will scan the general ledger on a monthly basis to identify potential accounting errors. Any discrepancies will be investigated and rectified promptly, as necessary.

