

Environmental Auditing

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An audit (financial or environmental) is employed where management is seeking a methodical means of verifying compliance, by checking that all important functions are disclosed, that procedures are in accord with generally accepted practices, and that these practices have been consistently followed. A "financial audit" is governed by definite standards and procedures. An "environmental audit" is a self-initiated, individual company effort in policing itself. At the present time, environmental audits are on a voluntary basis, but all indications point to a mandatory status in the near future.

The need to comply with federal, state and local regulations is the key point of the program. A compliance oriented company program can detect risks inherent in its operation, but does not necessarily have the ability to detect potential problems. A risk-management program with environmental auditing helps to detect potential problems which could prove disastrous and costly, destroy a company's integrity, with possible fines and imprisonment for company executives.

In considering the elements of an environmental audit, one must keep in mind that the level of detail and the emphasis placed upon these elements will depend on the specific circumstances and the nature of the business being audited.

Primary Objectives of the Audit

- 1- Determination of potential costs associated with all aspects of safety, health and environmental matters, including any potential for costs associated with facilities upgrading and compliance.
- 2- Determination of business risk and exposure.
- 3- Determination of existing and potential product liability or other short and long term liabilities associated with the operation.
- 4- Identification of areas requiring immediate or long-term remedial action.
- 5- Expanding opportunities for risk and cost reduction.

Mechanics of the Audit

Major components which should be examined, reviewed and evaluated include:

- 1- Agency-mandated compliance requirements of the Environmental Protection

Agency, Occupational Safety and Health Agency, Department of Transportation, and the Food and Drug Administration. (Should include as assessment of past, present and future contracts, compliance performance, and violations).

- 2- Compliance schedules, variances, product liability and complaints by customers, employers and the community.

- 3- Careful and detailed evaluation of products and processes, technology, facilities, equipment, working environment, and safety measures involved.

- 4- Legal aspects, outstanding litigation, fines, penalties, restrictions, and pending or probable actions.

- 5- Insurance aspects, levels, availability, assignment, renewability, requirements and potential increases.

- 6- Regulatory agencies inspection reports (internal and external), and records documenting regulatory compliance.

- 7- Worker's compensation status, medical and exposure records, accident and injury statistics, and comparison with available norms and emergency procedures.

- 8- Relevant regulatory compliance documents, e.g., National Pollution Discharge Elimination System Reports; Registration under the Emission Banking Credits; Federal Insecticide, Fungicide and Rodenticide Act Provisions; Toxic Substances Control Act Inventory.

- 9- Waste-Disposal Practice (particularly important in view of long-term liability that could be involved), waste-treatment facilities and their compliance with regulatory requirements.

- 10- Recalls, mandatory or voluntary.

- 11- Pending notifications, petitions, product or facilities registration.

- 12- Good laboratory and management practices; safety, health and environmental documents; company-developed manuals, policies and guidance documents.

- 13- Employee education and training programs.

- 14- Facilities registration and inspection reports.

Why an Environmental Audit?

What does one seek to accomplish by completing an environmental audit? Among

other benefits, an environmental audit may lead to the production of safe working conditions for employees. By doing an environmental audit, we also monitor and review waste disposal procedures, improve environmental management practices, create and expand the training function, reduce human error in routine procedures, and communicate to employees that management is concerned with sound environmental practices.

In addition, the audit builds a foundation for environmental compliance by meeting limits on standards for discharges, emission or wastes by operating and maintaining control of process equipment. By monitoring, testing and inspecting pollution-control equipment for emissions and wastes, companies are

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much more likely to comply with government regulations, and by maintaining records, relevant information and submitting timely reports to government agencies, they are less likely to run afoul of those same agencies.

Also, an environmental audit assists in a company being in compliance by providing certain actions (i.e., notification and cleanup) in the case of known accidental or unusual discharges of regulated toxic substances.

Existing legislation on this topic includes National Environmental Policy Act-1969; Federal Clean Air Act-1970; Clean Water Act-1976; Toxic Substances Control Act-1976; Resource Conservation and Recovery Act-1976; The Comprehensive Environmental Response, Compensation and Liability Act-1980; Safe Drinking Water Act-1974; and The Occupational Safety and Health Act-1970.

It is mandatory to read and understand the above legislation before proceeding to formulate an environmental auditing program.

Stages in the Development of the Environmental Audit

Development Stage: Environmental substances and processes to be audited are defined, company scope and objectives are finalized, organizational issues are resolved, proprietary and confidentiality issues are formulated, and facility audit guides are developed.

Review Stage: Corporate and divisional environmental policies and procedures are reviewed, audit guides are completed for each facility, environmental processes are inventoried, responsibilities are documented, and compliance status is reviewed.

Assessment Stage: Preparation of a program report which primarily documents, by facility, the inventory of processes and its monitoring procedures; identification of inconsistencies; statutes of compliance/non-

compliance; and a recommended plan of action for correcting deficiencies.

Remedial Stage: Corrective actions are performed by the company, such as obtaining permits, installing reporting mechanisms, and initiating training programs. As these actions are completed, the audit guides are then modified.

Audit Stage: Corporate and facility audits are undertaken, as well as conferring with cognizant agencies and the preparation of the final environmental audit report.

Evaluation of the Audit

Evaluations of the audit information and the subsequent formulation of recommendations for any remedial action will first involve review and assessment in three distinct areas:

Administrative Review: The data is reviewed by the auditors to determine whether all administrative requirements have been met such as reporting, testing, monitoring, operating conditions, recordkeeping, and possible litigation proceedings.

Policies and Procedures Review: Corporate policies and procedures relating to environmental compliance, authority and responsibility are reviewed.

Technical Review: Technical, operating and engineering aspects of each site are reviewed.

Only experienced personnel should participate in this review process since only they can provide the technical, business and regulatory knowledge so necessary to the successful completion of the audit review.

The auditors (internal or an independent auditing firm) now prepare a written draft, copies of which are provided to the facility manager, legal counsel and other key personnel who have responsibility in the operations. When all parties concur that the report is an accurate reflection of the various activities of the operation and its status, the report is presented to senior management.

Responsibilities of the Audit Team

- 1- Visit each facility subject to an audit.
- 2- Conduct visual inspection of physical conditions and processes present.
- 3- Examine pertinent records and record-keeping procedures.
- 4- Interview personnel.
- 5- Determine if various departments are meeting compliance schedules (and if not, why not!)
- 6- Take samples of raw materials, in-process products and the finished product for analysis and review.
- 7- Perform physical measurements.

All observations should be documented, controlled and accounted for to insure strict confidentiality.

Effect of Audit Program on Corporate Personnel

- 1- It helps to avoid criminal liability.
- 2- It requires corporate policy to comply with environmental laws and regulations.
- 3- It states that employees participating in violations will be held accountable.
- 4- It discourages conduct which could lead to prosecution.
- 5- It discourages the practice of false record-keeping.
- 6- It discourages false reporting.
- 7- It requires the cooperation between line workers, middle management and top management.
- 8- It brings to company personnel an awareness of what the federal regulations require for compliance.

Auditing Provisions to Reduce Risks

- 1- Review of plant workers' compensation claims.
- 2- Review of customer complaints.
- 3- Review of chemical components used in the manufacturing process.
- 4- Review of possibility of exposure to consumers by dangerous components.
- 5- Review of the use of possible dangerous component substitutes in the final product.
- 6- Review of company's history and correspondence in the areas of product, package and process development.
- 7- Review of company's warning and instruction labels.
- 8- Review of company's product instruction manuals.

Environmental Audit Attributes

- 1- It involves no rulemaking.
- 2- It has no preconceived regulatory assumptions.
- 3- It encourages collaboration.
- 4- It is deliberately open to industry, environmental groups and other interested parties.
- 5- It builds on corporate expertise.
- 6- It acknowledges real world operating experience.

7- Regulatory agencies look upon it with favor.

8- It presents a company with an efficient and effective plan for better control of its operations.

9- It can be initiated on a small scale to be expanded in the future (as needs arise).

10- It has a built-in early warning system to verify compliance.

11- It helps to identify the impact of future regulatory requirements.

12- It gives management an additional tool in its strategic planning processes.

Documentation and Organization of the Environmental Audit Handbook

One method of organizing the documentation is to incorporate the material into an environmental compliance policy and procedures handbook which should contain:

- 1- Corporate policies and procedures.
- 2- Inventory of regulated products and processes by facility.
- 3- Related federal, state and local regulations.
- 4- Schedules of permit expirations.
- 5- Compliance schedules.
- 6- Facility procedures and responsibilities.
- 7- Audit guide and program.
- 8- Procedure for updating the handbook.

An environmental policy should be based on a set of ideals which help to manage a company operation with diligence and with an awareness that one of the more important goals is to protect the environment. This can be accomplished by using the best control mechanisms available, and employing the best procedures and processes which have been proven technically sound and economically feasible.

This company philosophy should also include a provision to comply with all environmental legislation, regulations and standards and to create a system of self-monitoring to insure compliance. Companies should consider the expense of environmental protection as a cost of doing business in our modern industrial society, assuming that all environmental regulations promulgated are uniformly applicable throughout an industry.

Once this philosophy is part of a company policy, that company should encourage and support — with technical know-how, time and money — environmental programs and research efforts sponsored by organizations seeking short- and long-term solutions to technological and ecological problems. In addition, employees should be trained in environmental matters, actions and responsibilities relating to their particular work assignments.

Finally, the company should maintain a corporate environmental protection group to review, advise, coordinate and implement environmental protection activities and programs.

The Future of Environmental Auditing

- 1- Will help regulators achieve a more efficient use of resources.
- 2- Could reduce EPA and state agency compliance monitoring and enforcement activities.
- 3- Could enhance environmental quality.
- 4- Allows firms to promptly identify and correct problems.
- 5- Could improve economic viability.
- 6- Will help a firm's management with strategic planning.
- 7- Will help a company to determine which raw materials and production processes will be most cost-effective.
- 8- Auditing procedures yield compliance and operating data.
- 9- Allows firms to assess potential risks and hazards.
- 10- It improves a firm's public image.
- 11- May be evaluated by regulators as more feasible and cost-effective than mandatory reporting and monitoring.
- 12- Regulators and industry may find ways to shift a greater burden of compliance to the private sector.

Conclusion

Companies with their own established and functioning auditing programs are more apt to be in compliance with federal regulations covering environmental standards than firms that have completely neglected this process. Environmental auditing could efficiently and beneficially help to move the government and industry sectors away from the destructive, costly and adversary system of regulation which exists at the present time.

The audit report represents an extensive body of information. This information must be carefully reviewed and the applicable requirements reassessed to intelligently analyze the company's compliance status and to uncover potentially sensitive areas of non-compliance, which then present themselves for improvement and corrective action.

Realizing that the world's natural resources of air, water and land mass are vital to the human global existence, progress and continued development, we consider environmental protection to be of paramount concern in our total activities, domestic and international. The self-policing effects of environmental auditing, by companies large and small, should do a great deal to improve our environmental status.

There should be rewards for companies who develop successful auditing programs and maintain a high level of compliance due to these programs. It is the duty of our society to preserve the environment for future generations as well as strengthen our present generation. □



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