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UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF THE INSPECTOR GENERAL

NORTHERN DIVISION

77 WEST JACKSON BOULEVARD

CHICAGO, IL 60604-3590

905R95021

January 31, 1995

MEMORANDUM

SUBJECT: Audit Report No. E5FGF4-05-0261-5100144
Illinois Superfund Cooperative Agreement

FROM: Anthony C. Carrollo *[Signature]*
Divisional Inspector General for Audits
Northern Division

TO: Valdas V. Adamkus
Regional Administrator
Region 5

This report contains findings and recommendations from our interim audit of Illinois Environmental Protection Agency's internal controls over costs for their Superfund cooperative agreements.

This audit report contains findings that describe problems the Office of Inspector General (OIG) has identified and recommendations for corrective action. This audit report represents the opinion of the OIG. Final determination on matters in the audit report will be made by EPA managers in accordance with established EPA audit resolution procedures. Accordingly, the findings described in the audit report do not necessarily represent the final EPA position.

Action Required

In accordance with EPA Order 2750, you, as the action official, are required to provide this office a written response to the audit report within 90 days of the final report date. For corrective actions planned, but not completed by your response date, please include specific milestones for when corrective action will be completed.

We have no objections to further release of this report to the public.

Should you or your staff have any questions or need additional information, please contact Audit Manager Charles Allberry at 353-4222.

cc: Howard Levin (MF-10J)
Larry Eastep, Section Manager
IEPA Remedial Project Management Section

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Illinois Superfund Cooperative Agreements

EXECUTIVE SUMMARY

PURPOSE

The Office of Inspector General (OIG) has performed an audit of the Illinois Environmental Protection Agency (IEPA) management of cooperative agreements (CA). The audit was performed as part of the OIG's statutory requirement to audit a sample of CAs, as well as part of our ongoing oversight of Agency operations and programs. The objectives of our review were to determine whether IEPA:

- exercised adequate controls over costs through its financial management, accounting, procurement, contract administration, and property management systems;
- complied with Federal regulations and CA requirements; and
- achieved the objectives of the CAs.

BACKGROUND

The Superfund program was established by the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) of 1980. The program was revised and expanded in 1986 by the Superfund Amendments and Reauthorization Act. Under Superfund, EPA is responsible for managing the cleanup of hazardous waste sites that threaten human health and the environment.

CERCLA authorizes EPA to delegate remedial response activities at hazardous waste sites to individual states. IEPA is responsible for administering the environmental protection programs for the State of Illinois. When a state elects to manage the remedial response at a site, it enters into a CA with EPA. The CA (1) documents the division of responsibilities between the state and EPA, and (2) defines the Federal funding available to the state and its cost-share, if any.

We reviewed three sites under two multi-site CAs and the Core Program CA.

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Site/CA Name ¹	CA Number	Funds Awarded	Costs Incurred ²
Parson's Casket Hardware	V005989-01	\$1,641,964	\$1,361,934
Southeast Rockford	V005989-01	\$4,418,411	\$2,865,070
Paxton Avenue Lagoon	V005044-01	\$ 900,000	\$ 510,863
Core Program	V005946-01	\$5,240,915	\$5,147,171

RESULTS OF AUDIT

We found weaknesses in IEPA's quarterly reporting and internal controls over Superfund CAs. While none of these weaknesses caused us to question costs claimed on the CAs reviewed, corrective actions will lessen the risk that future costs claimed would be unallowable.

Monitoring Core Program Costs and Accomplishments

More detailed financial reports would improve Region 5's ability to monitor Core Program CA expenditures and tasks. Financial reports, submitted by IEPA, did not permit Region 5 to know when IEPA had exceeded planned amounts within budgeted cost categories. Also, Region 5 was not holding IEPA accountable for completing tasks. As a result, Region 5 did not know whether IEPA was satisfying the Core Program CA requirements. In fiscal 1995, IEPA will receive \$976,325 in additional Federal funding for its Core Program. Region 5 needs to improve its oversight of these funds and increase IEPA's accountability for planned tasks.

Internal Control Weaknesses

In general, IEPA has adequate internal controls over the funds it receives through Superfund CAs. However, we did find weaknesses in internal controls in the following areas:

- reconciliation of personnel charges,
- property management,

¹ Exhibit 1 provides a brief description of the three CAs reviewed during the audit.

² As of July 31, 1994.

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- review of contractor invoices, and
- tracking Core Program expenditures.

REGION 5 COMMENTS AND ACTIONS

Region 5 was generally in agreement with our report, and have already acted, or have agreed to act, to resolve the issues raised in this report.

RECOMMENDATIONS

We recommend that the Regional Administrator, Region 5:

1. Request that IEPA include in its Core Program CA quarterly progress reports total costs and a comparison of estimated to planned expenditures for each cost category.
2. Require the Superfund office to discuss with IEPA the status of Core Program CA tasks during semi-annual reviews.
3. Require the Superfund office, for fiscal 1996, to negotiate completion dates, when possible, for Core Program CA tasks.

We also recommend that the Regional Administrator, Region 5, require IEPA to:

1. Conduct periodic reconciliations of personnel charges claimed to supporting source documents.
2. Reassign property purchased with Core Program funds, that is currently being used by persons not supporting Superfund activities, to persons supporting Superfund activities.
3. Review and document its review of contractor invoices.
4. Track Core Program CA expenditures to the budget, by cost category.

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CHAPTER 1

INTRODUCTION

PURPOSE

The Office of Inspector General (OIG) has performed an audit of the Illinois Environmental Protection Agency (IEPA) management of cooperative agreements (CA). The audit was performed as part of the OIG's statutory requirement to audit a sample of CAs, as well as part of our ongoing oversight of Agency operations and programs. The objectives of our review were to determine whether IEPA:

- exercised adequate controls over costs through its financial management, accounting, procurement, contract administration, and property management systems;
- complied with Federal regulations and CA requirements; and
- achieved the objectives of the CAs.

BACKGROUND

The Superfund program was established by CERCLA in 1980. The program was revised and expanded in 1986 by the Superfund Amendments and Reauthorization Act. Under Superfund, EPA is responsible for managing the cleanup of hazardous waste sites that threaten human health and the environment.

CERCLA authorizes EPA to delegate remedial response activities at hazardous waste sites to individual states. IEPA is responsible for administering the environmental protection programs for the State of Illinois. When a state elects to manage the remedial response at a site, it enters into a CA with EPA. The CA (1) documents the division of responsibilities between the state and EPA, and (2) defines the Federal funding available to the state and its cost-share, if any. There are several different types of CAs.

- Multi-site CAs fund site specific remedial and removal activities.
- Core Program CAs fund state activities needed to support the Superfund program.

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- Pre-remedial CAs fund state activities such as preliminary assessments, site inspections, and hazardous ranking scoring.
- Enforcement CAs fund state oversight of responsible party activities at Superfund sites.

States must submit an "Application for Federal Assistance" to request CERCLA funds to support Superfund activities in their state. The application must include an estimated budget by cost category (i.e., personnel, travel, equipment, contractual, etc.). The application must also include a Statement of Work describing the activities and tasks to be conducted, the projected costs associated with each task, the number of products to be completed, and a schedule for implementation. The state is required to submit progress reports quarterly on the activities delineated in the Statement of Work. These reports must contain (1) an explanation of work accomplished during the reporting period, (2) a comparison of the percentage of the project completed to the project schedule, (3) a comparison of the estimated funds spent to date to planned expenditures, (4) an explanation of significant discrepancies, and (5) an estimate of the time and funds needed to complete the work required in the CA.

As of January 1, 1994, IEPA had 14 active CAs with EPA totalling \$37,829,245. The CAs involved removal or remediation work at 29 Superfund sites.

During January 1994, an EPA contractor performed a management assistance program (MAP) review of IEPA's Superfund program to (1) assess compliance with program requirements, (2) provide technical consultation in order to promote sound management practices, and (3) avoid future audit findings. The review focused on the Agency's financial, procurement, and property management practices as they pertain to the IEPA's Superfund program. The MAP review found areas for improvement and made recommendations to:

- develop written policies and procedures for key financial management functions,
- reconcile internal grant expenditure reports to expense documentation,
- improve time reporting practices,
- document Superfund recordkeeping practices,

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- account for usage of vehicles purchased with Core Program CA funds,
- re-certify the state's procurement system for purposes of Superfund and updating model contract references to program regulations,
- improve practices related to the use of Superfund property, and
- develop written policies and procedures for Superfund property management.

SCOPE AND METHODOLOGY

During our audit, we reviewed three sites under two multi-site CAs: Parson's Casket Hardware, Southeast Rockford (S.E. Rockford), and Paxton Avenue Lagoons. We also reviewed the Core Program CA. Table 1 provides a summary of the funds awarded and costs incurred for the four sites/CAs reviewed.

Table 1
IEPA Superfund Cooperative Agreements

Site/CA Name ¹	CA Number	Funds Awarded	Costs Incurred ²
Parson's Casket Hardware	V005989-01	\$1,641,964	\$1,361,934
Southeast Rockford	V005989-01	\$4,418,411	\$2,865,070
Paxton Avenue Lagoon	V005044-01	\$ 900,000	\$ 510,863
Core Program	V005946-01	\$5,240,915	\$5,147,171

These sites were selected because of their large dollar obligations and other factors. Parson's Casket site was selected for review during the survey based on the amount of obligations and discussions with Region 5 personnel. A second site, Paxton Avenue Lagoons, was selected after the survey because it had significant obligations with charges more current than other sites. We also chose to audit the

¹ Exhibit 1 provides a brief description of the three CAs reviewed during the audit.

² As of July 31, 1994.

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Core Program CA to examine overall CA management. We did not select pre-remedial or enforcement CAs because of changing priorities or the awards' low dollar value. Because no pre-remedial or enforcement CAs were selected for review, we selected one other site under a multi-site CA, besides Parson's and Paxton. There were two other on-going sites with Federal funds expended: (1) LaSalle Electric; and (2) S.E. Rockford. We selected the latter because it was a more current site.

To gain an initial understanding of IEPA's controls in the areas of financial management, accounting, procurement, and contract administration, we selected the Parson's Casket site. We obtained background information from the Region 5 Project Officer, evaluated the costs IEPA incurred on this project, and assessed the controls over contractor performance and billings.

For the Parson's Casket site, we analyzed costs as of the latest available Financial Status Report, dated September 30, 1993. We reviewed the personnel costs claimed by selecting a random sample of 53 employee time sheets out of a universe of 537. The sample represented 10 percent of the time sheet universe. In reviewing contractual costs for the site, we selected a judgmental sample of the five largest contractor invoices, which represented 37 percent of the total dollar amount of contractual costs. In addition, we sampled equipment and commodity expenditures. We did not test costs in other categories as amounts claimed for those categories were not material to the total amount claimed.

After completing our review of Parson's Casket, we expanded our scope to include two additional sites (Paxton Lagoons and S.E. Rockford), and the Core Program CA. We selected the additional sites to determine whether contract administration issues identified during our review of the Parson's Casket CA were unique to that site or systemic occurrences throughout all CAs. We reviewed contractual costs by selecting a judgmental sample of the four largest contractor invoices. The sample amount represented 30 percent of the total dollar amount of contractual costs. We did not sample the other cost categories as none had significant costs beyond those tested during the survey of Parson's Casket. Since it was not practical to select statistical samples, our results were not projectable to the universe.

For the Core Program CA, we reviewed whether the objectives of the CA were achieved. We also evaluated IEPA's controls over letter-of-credit drawdowns and property management.

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For all items tested, we examined the source documents and performed other audit procedures that we considered necessary to gain an understanding of IEPA's financial management and accounting controls. As criteria, we used the Code of Federal Regulations (CFR) Title 40, Parts 30, 31, 33, and 35; Office of Management and Budget (OMB) Circular A-87 and A-102; and the general and special conditions contained in each CA. Except as noted in chapter 3, our review of Parson's Casket did not disclose any material weaknesses in IEPA's financial management, accounting, and procurement systems.

In planning and performing our audit, we considered relevant aspects of the internal control structure in order to determine our auditing procedures. The significant controls we reviewed included financial management, accounting, contract procurement, contract management, and property management. For these internal controls, we obtained an understanding of the relevant policies and procedures and whether they had been placed into operation. We also relied upon the single audit report, prepared by the Illinois Office of the Auditor General, for the IEPA, for the two years ending June 30, 1991 and 1992, to the extent that it was applicable to IEPA's Superfund program. Weaknesses in internal controls are discussed in chapter 3. Nothing else came to our attention in connection with our review which caused us to believe that IEPA was not in compliance with any of the terms and conditions of the CA, laws, and regulations for those transactions not tested.

We performed our audit in accordance with the Government Auditing Standards, 1988 Revision promulgated by the Comptroller General of the United States and included tests of the accounting records and other auditing procedures as deemed necessary. Audit fieldwork was performed from June 13, 1994, to November 11, 1994.

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CHAPTER 2

ACCOUNTABILITY FOR CORE PROGRAM EXPENDITURES AND ACCOMPLISHMENTS

More detailed financial reports would improve Region 5's ability to monitor Core Program CA expenditures and tasks. Financial reports, submitted by IEPA, did not permit Region 5 to know when IEPA had exceeded planned amounts within budgeted cost categories. Also, Region 5 was not holding IEPA accountable for completing tasks. As a result, Region 5 did not know whether IEPA was satisfying the Core Program CA requirements. In fiscal 1995, IEPA will receive \$976,325 in additional Federal funding for its Core Program. Region 5 needs to improve its oversight of these funds and increase IEPA's accountability for planned tasks.

MONITORING CORE PROGRAM EXPENDITURES

By obtaining more detailed financial reports from IEPA, Region 5 would improve its ability to monitor activity within the Core agreement. IEPA's quarterly progress reports for the Core agreement included only overall cost information, as required by EPA regulations. This aggregate reporting did not provide Region 5 with a comparison, by cost category, of expenditures incurred to planned expenditures. As a result, Region 5 was not aware that IEPA had significantly exceeded its planned expenditures for several cost categories.

As shown by the bracketed numbers in table 2, IEPA Core Program expenditures exceeded the budget for contractual, equipment, other, and indirect cost categories.

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Table 2
Superfund Core Program Cooperative Agreement
Actual and Budgeted Expenditures From
July 1, 1987, Through July 31, 1994³

Cost Category	Actual Expenditures	Budgeted Expenditures	Difference
Personnel	\$ 1,980,226	\$ 2,096,373	\$ 116,147
Fringe Benefits	392,644	455,503	62,859
Contractual	505,099	448,499	(56,600)
Travel	110,658	137,354	26,696
Supplies	55,198	426,758	371,560
Equipment	428,386	376,240	(52,146)
Other	512,970	174,466	(338,504)
Total Direct	\$ 3,985,181	\$ 4,115,193	\$ 130,012
Indirect Costs	1,161,990	1,125,722	(36,268)
Total Costs	\$ 5,147,171	\$ 5,240,915	\$ 93,744
EPA Share ⁴	\$ 4,694,220	\$ 4,780,233	\$ 85,834

During fiscal 1991, IEPA personnel noticed expenditures were exceeding the budget for some cost categories. At that time, IEPA attempted to rebudget funds from other cost categories to cover the shortages. However, rebudget efforts were not successful in correcting the problem. IEPA personnel stated that, because of other priorities, they were unable to devote adequate time needed to realign the Core Program budget to the expenditures.

Current regulations require states to obtain EPA's approval to reallocate funds among cost categories only when the cumulative amount exceeds 10 percent of the total approved budget. IEPA's variances did not exceed this threshold. Therefore, no approval was required or requested. However,

³ The Core Program CA is amended yearly to provide additional funds.

⁴ For the Core Program CA, the cumulative EPA share is 91 percent.

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receiving financial information detailed by budget cost category would allow Region 5 to be aware of changes to the original plan which were not highlighted in the progress report narrative. This knowledge would, in turn, allow the Region to ask appropriate questions and update its understanding of a project's direction.

Providing financial information by budget cost category should not result in any additional recordkeeping for IEPA. Its accounting system already accumulates and tracks expenditures in this manner. In fact, IEPA already reports financial data by cost category for all EPA Cooperative Agreements except for the Core Program.

COMPLETION DATES FOR CORE PROGRAM TASKS

Region 5 needs to hold IEPA more accountable for timely completion of Core Program CA tasks. IEPA did not complete some tasks identified in the fiscal 1994 Core Program CA. Region 5 monitoring of IEPA progress in completing tasks was hindered because the tasks were not given specific due dates for completion. As a result, Region 5 has no means of determining whether reasonable progress is being made toward completion of tasks needed to support the Superfund program in Illinois.

EPA developed the Core Program CA concept to provide each state the necessary funds to carry out Superfund activities. The Core Program CA provided states with additional funds to conduct Superfund implementation activities that were not directly identifiable to specific sites, but were intended to support a state's overall ability to participate in the Superfund response program. Each year IEPA and Region 5 negotiate specific tasks that will be accomplished using Core Program CA funds. The fiscal 1994 Core Program CA lists ten major activities, including program management, staff development, legal and statutory activities, and a community relations and public education program. Within each of these activities, the CA lists various tasks that IEPA will perform, including a schedule and objective for each task.

IEPA did not complete some of the tasks in the Core Program CA for fiscal 1994, as shown in table 3. These tasks are important in supporting IEPA's involvement in the Superfund program. Not completing tasks, such as training and project management systems, could effect IEPA's ability to manage Superfund activities.

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Table 3
Superfund Core Program Cooperative Agreement
Status of Fiscal 1994 Core Program CA Workplan Tasks

Core Program CA Task	Completion Date	Task Status	
		As of 11/11/94 ⁵	As of 01/12/95 ⁶
Develop project management data base tracking system.	02/01/94	Not completed.	Planned completion 09/30/95.
Provide project manager training in 12 specific areas.	On-Going	Training complete in 4 of 12 areas.	Training provided in 10 of 12 areas to some project managers.
Develop and implement IEPA's cost documentation procedures to support EPA cost recovery efforts.	On-Going	Not completed.	Draft procedures completed.
Update and revise the protocols for project management. Develop an appropriate contractor evaluation systems.	On-Going	No written procedures in place.	Draft evaluation form issued 11/08/94.

Region 5 needs to hold IEPA accountable for completing scheduled tasks. Region 5 was not monitoring IEPA's completion of Core Program CA tasks. Region 5 and IEPA conduct semi-annual reviews to discuss progress on the CAs. The reviews focus on site specific, remedial action accomplishments. Region 5 personnel stated that Core Program CA task accomplishments are not extensively discussed during the reviews. Also, as shown in table 3, many of the tasks do not have assigned completion dates. Some tasks, such as

⁵ Conclusion of audit fieldwork

⁶ Region 5 response to draft audit report

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training, cannot be assigned a specific completion date. Other tasks, such as updating and revising the protocols for project management and developing a contractor evaluation system, can have completion dates assigned. Not having due dates makes it difficult to evaluate progress in completing tasks.

CONCLUSION

Region 5 would improve its ability to monitor Core Program expenditures and task accomplishments by requesting that IEPA include more financial detail in quarterly progress reports. These reports should include a comparison of cumulative costs to planned expenditures for each cost category. Also, estimated completion dates would assist Region 5 in monitoring the progress of tasks to be accomplished under the Core agreement.

RECOMMENDATIONS

We recommend that the Regional Administrator, Region 5:

1. Request that IEPA include in its Core Program CA quarterly progress reports total costs and a comparison of estimated to planned expenditures for each cost category.
2. Require the Superfund office to discuss with IEPA the status of Core Program CA tasks during semi-annual reviews.
3. Require the Superfund office, for FY 1996, to negotiate completion dates, when possible, for Core Program CA tasks.

AGENCY COMMENTS AND OIG EVALUATION

Region 5 generally agreed with the findings and recommendations presented in this chapter. Its response provided updated information on the status of Core CA tasks. We added this information to Table 3 on page 10.

In response to our specific recommendations, Region 5 stated that it will place discussion of Core CA deliverables on the agendas for future Superfund Program Review meetings (recommendation #2). Region 5 also agreed to specifically

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negotiate completion dates for Core CA tasks in the fiscal 1996 amendment (recommendation #3).

We revised recommendation #1 to address a concern expressed by Region 5 in its response to the draft report. We originally recommended that Region 5 require IEPA to submit more detailed quarterly progress reports. Region 5, however, does not believe it could require more detailed reporting. Current regulations direct a State to report financial information in aggregate terms. Region 5 asked that we remove this finding from the report.

We continue to believe that more detailed reporting would allow Region 5 to better monitor cooperative agreement expenditures. Therefore, we did not remove the finding from this report. In consideration of Region 5's concern, we reworded the related recommendation to request more detailed reporting from IEPA. IEPA has agreed to include "a comparison of estimated to budgeted expenditures for the Core Program cooperative agreement quarterly progress reports." This will adequately address our recommendation.

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CHAPTER 3

IEPA INTERNAL CONTROLS OVER COOPERATIVE AGREEMENTS

In general, IEPA has adequate internal controls over the funds it receives through Superfund CAs. However, we did find weaknesses in internal controls in the following areas:

- reconciliation of personnel charges,
- property management,
- review of contractor invoices, and
- tracking Core Program expenditures.

Reconciliation of personnel charges and the management of property issues were previously identified in Region 5's MAP review of IEPA's Superfund program. IEPA agreed to take action to address the findings in the MAP, but had not implemented the corrective actions at the time of our audit.

IEPA management is responsible for establishing and maintaining an internal control structure. The objective of an internal control structure is to provide management with reasonable, but not absolute, assurance that Federal financial assistance programs are managed in compliance with applicable laws and regulations.

RECONCILIATION OF PERSONNEL CHARGES

IEPA personnel charges billed could not be reconciled to the personnel reporting system (PRS), which tracks employee time by project. This occurred because personnel costs for overtime are reported differently in the time tracking system than how they are billed to EPA. As a result, we were unable to verify the total personnel costs IEPA claimed. In response to a recent IEPA MAP review, IEPA agreed to conduct quarterly reconciliations of CA expenditures, including personnel costs, to supporting documentation.

Regulatory guidance in 40 CFR Part 35.6270 requires a recipient's accounting system to use actual costs as the basis for all reports of direct site charges. This includes a record keeping system that enables site-specific costs to be tracked by site, activity, and operable unit, and provides sufficient documentation for cost recovery purposes. IEPA's

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accounting system tracks personnel costs by appropriation. IEPA uses the PRS to track personnel costs for each CA and grant.

Personnel charges billed to EPA could not be reconciled to the time tracking system. Printouts from the time tracking system list individuals who charged time to a site, and includes overtime premium costs as part of the direct personnel charges. However, when billing Federal projects, IEPA policy is to allocate overtime premium costs to all projects a person works on during a pay period. As a result, personnel charges in the tracking system were greater than what was billed to EPA. For example, for the Parson's Casket site, there was a difference of \$12,427 between the time tracking system and what was billed to EPA.

Personnel costs per tracking system	\$ 271,401
Personnel cost billed to EPA	<u>258,974</u>
Difference	<u>\$ 12,427</u>

Since the treatment of overtime premium was different in the tracking system than how it was billed to EPA, we could not verify the total personnel charges to IEPA's time tracking system. IEPA does perform a manual reconciliation of personnel charges during cost recovery, but this is only done when EPA requests the information. As a result of the MAP review, IEPA will be reconciling expenditure reports to expense documentation on a quarterly basis. The quarterly reconciliation should include reconciling personnel costs billed to EPA to what is contained in the time tracking system.

PROPERTY MANAGEMENT

IEPA did not have sufficient control over Core Program property. This occurred because IEPA did not ensure that property purchased with Core Program CA funds was issued to personnel supporting the Superfund program. As a result, IEPA property purchased with Core Program CA funds was not being used to support Superfund activities.

Guidance in 40 CFR Part 35.6270 requires that a state's accounting system provide control, accountability, and an assurance that funds, property, and other assets are used only for authorized purposes.

IEPA inventory records showed that staff assigned to the Bureau of Water, Leaking Underground Storage Tank Program,

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and the Management of Used Tires Program were using property purchased with Core Program funds. We confirmed these inventory records by physically locating these property items. IEPA personnel stated that all property purchases are added to the inventory without regard to the source of funding used to purchase the property. Property was then removed from inventory on a first come, first serve basis. As a result, property may not be assigned to personnel performing activities related to the source of funding for the property.

The MAP review, which was performed of IEPA's Superfund program during January 1994, also found that property was not being used to support Superfund activities. In response to the finding, IEPA agreed to prepare a property management policy for all equipment purchases with CERCLA funds. IEPA also agreed to evaluate the assignments of all equipment purchased with Core Program funds. As of September 1994, IEPA had not implemented these recommendations.

REVIEW OF CONTRACTOR INVOICES

IEPA personnel responsible for reviewing contractor invoices did not always complete invoice review sheets before submitting the invoices for payment. This occurred because IEPA was not consistently complying with its procedures to document contractor invoice reviews before invoices were submitted to the fiscal office for payment. Documented invoice reviews, prior to payment, ensure that tasks listed in the contract are completed and contractors are paid only for services provided.

In March 1990, IEPA initiated procedures to document contractor invoice reviews before invoices were submitted for payment. IEPA developed a standard contractor invoice review checklist sheet. The review checklist calls for IEPA to verify such items as (1) total hours charged against individual time sheets, (2) hourly labor rates charged against the contract, and (3) whether work was performed prior to the contract expiration date. Tick marks on some invoices led us to conclude that the invoices had been reviewed to some extent, however we did not find invoice review sheets in the files. Six of nine invoices we reviewed did not have invoice review sheets. We informed IEPA officials of the inconsistent invoice review practices. IEPA officials stated that, in the future, documented evidence prescribed by the Agency will be attached to contractor

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invoices before they are submitted to the fiscal office for payment.

TRACKING CORE PROGRAM EXPENDITURES

As discussed in chapter 2, IEPA exceeded its budget for some cost categories in the Core Program CA. This occurred because IEPA was not comparing Core Program CA actual expenditures to the budget. As a result, Core Program CA expenditures, for some cost categories, consistently exceeded the budget.

We found that neither IEPA's Budget and Grants Unit nor the Finance Office were reviewing Core Program expenditures for each cost category to ensure they did not exceed budgeted amounts. The Budget and Grants Unit monitors financial expenditures against project budgets. The Finance Office maintains fiscal information on Federal grant programs, including CAs. Personnel in budget and finance offices reviewed Core Program CA expenditures only to ensure they did not exceed total budgeted amounts, and not individual cost categories.

Some cost categories have been over budget for several years (see table 2 in chapter 2, page 6). This has made it difficult for IEPA to ensure that expenditures are within budget for individual cost categories. We issued a flash report (report no. 4400111) on September 29, 1994, informing Region 5 that IEPA was exceeding budgeted amounts in several cost categories for the Core Program CA. We recommended that Region 5 require IEPA to amend its fiscal 1995 Superfund Core Program CA to assure that actual and fiscal 1995 planned expenditures did not exceed the budgeted amounts in each cost category. Correcting the cost categories which are over budget will allow IEPA to better track actual and budgeted expenditures.

CONCLUSION

IEPA could improve internal controls over the funds it receives through Superfund CAs by (1) periodically reconciling personnel charges to supporting source documents to verify the accuracy of reported costs, (2) reassigning property purchased with Core Program funds, currently being used by persons not supporting Superfund activities, to persons supporting Superfund activities, (3) reviewing and documenting its review of contractor invoices, and (4)

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tracking Core Program CA expenditures to the budget, by cost category.

RECOMMENDATIONS

We recommend that the Regional Administrator, Region 5, require IEPA to:

1. Conduct periodic reconciliations of personnel charges claimed to supporting source documents.
2. Reassign property purchased with Core Program funds, that is currently being used by persons not supporting Superfund activities, to persons supporting Superfund activities.
3. Review and document its review of contractor invoices.
4. Track Core Program CA expenditures to the budget, by cost category.

AGENCY COMMENTS AND OIG EVALUATION

Region 5 agreed with the findings and recommendations presented in this chapter. It will advise IEPA that (1) periodic reconciliations of personnel charges should be performed (recommendation #1) and (2) property should be reassigned to ensure that all Superfund property is used by IEPA's Superfund staff (recommendation #2).

IEPA stated that its present policy requires reviewers to complete the standard checklist for every contractor's billing (recommendation #3). IEPA also submitted an amendment application to the Core CA to adjust budgeted amounts to actual expenditures (recommendation #4).

The actions taken or proposed by Region 5 and IEPA adequately address our recommendations.

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IEPA COOPERATIVE AGREEMENTS REVIEWED

As part of our audit we reviewed the Parson's Casket Hardware, S.E. Rockford, Paxton Avenue Lagoons, and Core Program CAs.

Parson's Casket Hardware

The 2-acre Parson's Casket Hardware Company site, located in Belvidere was an electroplating facility from the 1920s until 1982, when the owner filed for bankruptcy. In 1982, IEPA found hazardous wastes in drums of various sizes stored around the facility, in storage tanks, and in an unlined lagoon. Following the cleanup of these wastes, sampling data IEPA collected in 1987 indicated that the groundwater was contaminated with numerous volatile organic compounds (VOC). The municipal water system in the area draws groundwater from this aquifer and is the sole source of drinking water for Belvidere's 15,200 residents. IEPA studied the nature and extent of contamination at the site with EPA oversight. IEPA completed the remedial investigation/feasibility study in 1992. EPA is using the results of this study to determine and select alternative actions for the clean up of the site.

S.E. Rockford

The S.E. Rockford site covers about 2-square miles, and affects about 155,000 people. The groundwater in the area is contaminated with VOCs. The site is being addressed in three stages: (1) initial actions, (2) alternate water supply, and (3) long term groundwater remedy. The initial action stage, which was completed in 1990, involved EPA sampling the wells of 78 homes and testing for specific VOCs. EPA provided bottled water to 283 homes until carbon filtration systems could be installed. All 283 homes subsequently were connected to the city water supply in 1990. The alternate water supply stage, which was completed in 1991, identified additional residences with contaminated water supplies above the Federal standards. This action resulted in additional hookups to the city water supply. The long term groundwater remedy stage, under EPA monitoring, is still on-going and involves an IEPA investigation into the source, nature, and extent of the contamination. The investigation will define the contaminants and will result in recommended alternatives

for the final groundwater remedy. IEPA plans to complete the investigation during 1994.

Paxton Avenue Lagoon

The Paxton Avenue Lagoons site is located on the south side of Chicago. The site consists of three lagoons, a mound of soil and crushed drums, and a seepage area of oily soil. In 1985, IEPA performed a remedial investigation at the site to determine the characteristics and extent of the contamination. Based on the remedial investigation, IEPA erected an incinerator and excavated and incinerated contaminated soil. The remaining contamination at the site was covered with a cap during December 1993. IEPA completed work at the site during March 1994.

Core Program CA

The Core Program CA provides IEPA with funds to conduct non-site specific Superfund activities. IEPA received its first Core Program CA in July 1987. The CA is amended yearly to provide additional funds. IEPA used the Core Program to fund non-site specific activities, including (1) purchasing property, providing technical training, and (2) providing health assessment screening for IEPA personnel supporting the Superfund program.

Illinois Superfund Cooperative Agreements

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REGION 5 RESPONSE TO DRAFT REPORT



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
REGION 5
77 WEST JACKSON BOULEVARD
CHICAGO, IL 60604-3590
JUN 12 1985

REPLY TO THE ATTENTION OF
R-19J

MEMORANDUM

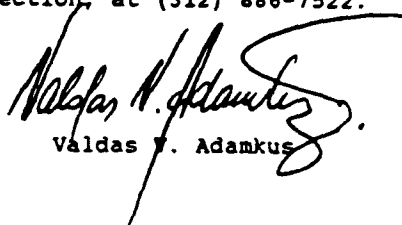
SUBJECT: Region 5 Response to the Office of Inspector General
Draft Report on Illinois Environmental Protection Agency
Management of Cooperative Agreements

FROM: Valdas V. Adamkus
Regional Administrator

TO: Anthony C. Carrollo, Divisional Inspector General
for Audits, Northern Division

Thank you for the opportunity to respond to the draft report on Illinois Environmental Protection Agency (IEPA) management of cooperative agreements. The Region's comments are attached, along with our formal response to each of the recommendations that appear in the draft report.

If you have any questions concerning these comments, please call Howard Levin, Chief, Financial Analysis Section, at (312) 886-7522.


Valdas V. Adamkus

Attachment

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Illinois Superfund Cooperative Agreements

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Region 5 Response to the Office of Inspector General Draft Report on Illinois Environmental Protection Agency Management of Cooperative Agreements

Listed below are the Region's concerns with the draft report, as well as the Region's response to each recommendation.

COMMENTS ON THE REPORT

1. IEPA has informed us that they expect to complete the design of a project management data base tracking system by September 30, 1995.
2. Regarding the twelve specific areas of project manager training, these twelve areas of training were not meant to be mandatory training and they do not represent specific training courses. IEPA has notified us that they have provided training to some project managers in ten of the twelve areas identified in Activity 4 of the Core Grant during the last year.
3. IEPA has informed us that they have developed cost recovery procedures (written procedures in draft form) for EPA cost recovery. IEPA has thus far completed cost recovery documentation requests by U.S. EPA in a timely manner, and all documentation packages have been complete.
4. USEPA issued a draft evaluation form for State use on November 8, 1994, and will be holding a meeting with state officials on February 2, 1995, to discuss the Contracts Management Guidance, including the evaluation guide.
5. Region 5 recommends deleting the finding on page 7, that we did not require IEPA to report actual expenditures by cost category on a quarterly basis, due to the fact that it is not required in our regulations. The Grant regulations at 40 CFR Part 35.6650(b)(3) and (4) require the quarterly reports to include an estimate of funds spent to date as compared to planned expenditures, and estimated funds needed to complete the CA work as compared to funds remaining. A Financial Status Report (FSR) is required to be submitted annually, 90 days after the end of the grant year, and does not require reporting of expenditures by cost category. Under 40 CFR Part 31.30 (c) and (e), U.S. EPA cannot require, and the State does not need to obtain prior approval, to make cumulative transfers among direct cost categories that do not exceed 10% of the current total approved budget, if such transfers do not result in the need for additional funds. Region 5 plans to continue to provide States with this flexibility to make transfers.

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DRAFT REPORT RECOMMENDATIONS

Require IEPA to include in its core program CA quarterly progress reports, total costs and a comparison of actual to budgeted expenditures for each cost category.

Region 5 Response: IEPA has agreed to include total estimated costs and a comparison of estimated to budgeted expenditures for the CORE program cooperative agreement quarterly progress report.

Discuss with IEPA the status of core program CA tasks during semi-annual reviews.

Region 5 Response: Discussion of the CORE CA deliverables will be placed on the agendas for the Superfund Program Review meetings.

Require the Superfund program, for fiscal 1996, to negotiate completion dates, when possible, for core program CA tasks.

Region 5 Response: Region 5 will specifically negotiate task completion dates in the Fiscal Year 1996 amendment.

Require IEPA to conduct periodic reconciliations of personnel charges claimed to supporting source documents.

Region 5 Response: Region 5 will advise IEPA that periodic reconciliations of personnel charges to supporting source documents should be performed.

Require IEPA to reassign property purchased with core program funds, that is currently being used by persons not supporting Superfund activities, to persons supporting Superfund activities.

Region 5 Response: Region 5 will advise IEPA that the recommended reassignment of property should be accomplished as soon as possible to insure that all property with Superfund serial numbers is used by IEPA's Superfund Staff.

Require IEPA to review and document its review of contractor invoices.

Region 5 Response: The IEPA indicated to us that they originally developed the billing review checklist as a training tool. Present IEPA policy requires that the Billing Reviewer uses and completes the checklist for every consultant's and contractor's billing.

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Report No. E5FG4-05-0261-5100144

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Require IEPA to track core program CA expenditures to the budget, by cost category.

Region 5 Response: IEPA has informed us that this recommendation is based on one incident where amounts were accidentally switched between object class categories, and thus not a systemic problem. IEPA has agreed to continue to track CORE program CA expenditures to the budget by cost category. IEPA submitted an amendment application which was received on December 21, 1994, for the purpose of correcting this error. This problem was also mentioned in a Flash Report dated September 23, 1994.

ABBREVIATIONS

CA	Cooperative Agreement
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
CFR	Code of Federal Regulations
IEPA	Illinois Environmental Protection Agency
MAP	Management Assistance Program
OIG	Office of Inspector General
OMB	Office of Management and Budget
PRS	Personnel Reporting System
VOC	Volatile Organic Compounds

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Illinois Superfund Cooperative Agreements

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Attention: Assistant Administrator for the Office of
Administration and resources Management

Agency Followup Coordinator (H-3304);
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