United States
Environmental Protection
Agency

Office of
Inspector General
401 M Street, SW
Washington, DC 20460

EPA

Report of Internal and Management Audit

Interim Report of Audit of the

Environmental Protection Agency's Portion of the

Hazardous Substance Response Trust Fund

as of September 30, 1981

Audit Report E5eH2-11-0012-20708

March 31, 1982

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

March 31, 1982

INSPECTOR GENERAL

SUBJECT: Interim Report of Audit of the Environmental Protection Agency's Portion of the Hazardous Substance Response Trust Fund, Audit Report E5EH2-11-0012-20708

FROM: Matthew N. Novick (A-109) Matthew N. Novick

TO: Anne M. Gorsuch
Administrator (A-100)

Enclosed are two copies of our report for your use in administering the CERCLA program. We have incorporated your comments on our draft report after each finding and included the entire response as Attachment I. Where we consider appropriate, we have included our own comments after those which you provided.

We met with senior Agency officials to discuss the response. We concluded that the comments you provided us were responsive to our recommendations.

I request that within 120 days, you provide us information concerning the actions undertaken to implement our recommendations. This also should include the results of the review to determine the legal and technical feasibility of implementing certain of the recommendations.

As required by section 111(k) of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, we have submitted this report and your response to the Congress.

We have no objection to the further release of this report at your discretion.

If you have any questions concerning the report, we will be pleased to discuss them with you at your convenience.

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PART I - DIGEST

PURPOSE AND SCOPE OF AUDIT

We have completed an audit of the Environmental Protection Agency's (EPA) portion of the Hazardous Substance Response Trust Fund (Superfund) established under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA). Our audit was mandated by CERCLA (section 111(k)), which states that the Inspector General must audit all payments, obligations, reimbursements, or other uses of the "Superfund" to ensure that the fund was being properly administered and that claims were being appropriately considered. This mandate required audit tests to determine that the costs to administer Superfund were "necessary for" and "incidental to" the implementation of CERCLA (section 111(a)). The audit included an evaluation of internal and management controls as well as an audit of costs charged to the Superfund appropriation (68-20X8145) for fiscal 1981.

We selectively tested transactions amounting to $26,350,059, or 66 percent of the $40,143,028 charged (obligated) to Superfund. The objectives of this audit were to determine:

1. compliance with applicable laws, regulations, and guidelines;

2. the adequacy of internal controls to ensure reliability of accounting and management records; and

3. The accuracy and fairness of financial reports on EPA's portion of Superfund as of September 30, 1981.

We performed the audit in accordance with the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions issued by the Comptroller General of the United States. Our audit included tests of the accounting records of eight regional offices, two major laboratory facilities, and EPA Headquarters; evaluations of internal and management controls; reviews of property management activities at a number of the Agency's property accountable areas; and other auditing procedures we considered necessary. The specific audit locations are shown in Exhibit B. This report represents a consolidation of the information and findings obtained in each of these component audits and overall recommendations to EPA management. The findings and recommendations developed during each component audit were previously discussed with and provided to appropriate responsible officials for comment. We did not analyze program results. Contract, grant, and interagency agreement costs were accepted only to the extent that valid obligation and disbursement records were maintained. Final audits of contracts, grants, and interagency agreements performed at a later date may disclose questioned costs.

BACKGROUND

On December 11, 1980, the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (Public Law 96-510) was signed into law. It provides for liability, compensation, cleanup, and emergency response for hazardous substances released into the environment and uncontrolled and abandoned hazardous waste sites. The CERCLA program represents a new approach to environmental law, as demonstrated by several features of the legislation:

- It is nonregulatory in nature. There are no standards or permits, but the liability of "responsible parties" provides the incentive for a higher standard of care.

- It is financed by those who impose the risks of hazardous chemicals on society.

- It makes government the actor of last resort. If cleanup is provided by those responsible, the government cannot act. If those responsible fail to clean up or are unknown, the government is authorized to clean up first and litigate later.

- It encourages close cooperation between Federal, State, and local governments. States rank their own priorities for hazardous site cleanup and may veto a federally endorsed cleanup plan by withholding the required cost-sharing (10 to 50 percent of total

cleanup costs). When a State or municipality is capable of responding appropriately, EPA may enter into a cooperative agreement or contract with them for emergency cleanup or remedial action.

CERCLA provides for the establishment of a program to control and clean up hazardous substances released or left to dissipate into the environment. CERCLA broadly defines two types of response actions: removal and remedial. The former term represents relatively short-term responses, while the latter represents actions of longer duration leading to permanent resolution.

To fund removal and remedial actions, title II, subtitle B, of CERCLA established the Hazardous Substance Response Trust Fund. The $1.6 billion fund will be collected over a period of five years, financed by an imposed tax ($1.38 billion) on the manufacturers, producers, and importers of petroleum, petroleum products, and certain "taxable" chemicals, and from general tax revenue ($220 million). On February 25, 1981, the Coast Guard transferred $6,742,875 to Superfund. In addition, the Supplemental Appropriations and Rescission Act (Public Law 97-12), which was passed on June 5, 1981, appropriated $68,000,000 from Superfund for EPA. The Office of Management and Budget apportioned the funds to EPA on July 1, 1981. The Agency issued advices of allowance totalling $63,742,900 to 22 allowance holders on July 7 and 8, 1981, and held $11 million in reserve, bringing the total amount available to EPA to $74,742,900.

The Comptroller of EPA determined that CERCLA expenses incurred after June 8, 1981, could be charged to Superfund. Section 111(a) of CERCLA limits the use of the money in Superfund to response costs; claims asserted and compensable but unsatisfied under section 311 of the Clean Water Act; claims for injury to, or destruction or loss of, natural resources; and related costs described in section 111(c). When cleanup costs are charged to Superfund, EPA may recover the costs from the responsible parties through litigation. Section 111(a) further limits administrative costs or expenses in that they may not be paid out of the fund unless such costs and expenses are "reasonably necessary for" and "incidental to" the implementation of CERCLA.

On August 14, 1981, President Reagan delegated to Federal agencies, via Executive Order 12316, the authority vested in him by CERCLA. The Administrator of EPA received authority to use the money in Superfund, settle claims asserted against Superfund, and designate Agency officials who may obligate funds.

SUMMARY OF AUDIT RESULTS

EPA obligated $40,143,028 of Superfund monies during fiscal 1981. Nearly $34 million (84 percent) of this amount was for contracts, grants, and interagency agreements. We found very few problems with respect to EPA's ability to account for these extramural costs. However, there was a need for improved accounting and control over the intramural costs which comprised the remaining $6 million (16 percent). Most of the problems were in the area of personnel compensation, which at $2.3 million comprised less than six percent of total costs.

Accounting System and Procedures

EPA's accounting system, like those of most government agencies, is geared to account for costs on an organizational basis. The organizational units within EPA are each issued a budgetary allowance at the beginning of the fiscal year, and their spending actions are recorded against their budget. The advent of the CERCLA program created new and unique cost-accounting requirements which previously had not been necessary.

Section 111(a) of CERCLA requires that Superfund be charged only for costs which are "reasonably necessary for" and "incidental to" implementation of CERCLA. This requirement necessitated enhancements to EPA's existing accounting system and procedures to provide essentially what amounts to job-costing capability. As an example, employees' labor costs under the old system were charged entirely to the organization for which they worked. Now the system must distribute employees' labor costs between the CERCLA program and any other program on which they work, as well as between individual hazardous waste sites within the CERCLA program.

EPA has addressed some of these problems, but additional guidance and improvements are needed. We recognize that cost accounting requirements can be expensive and burdensome, and that additional controls must be evaluated to ensure the cost of implementation does not outweigh the benefits received. However, we believe there are cost-effective controls which will place some additional burden on the Agency, but are necessary to comply with section 111(a) of CERCLA. Due to the absence of such controls and procedures needed to account for certain costs charged to Superfund, we set aside $2.9 million of costs pending further analysis and documentation by the Agency to substantiate the propriety of the charges. We also questioned costs totalling $368,914 which we believe are definitely not related to CERCLA and which should have been charged to other Agency programs.

Cost exceptions noted in fiscal 1981 were not large in relation to total obligations. However, we have recommended that the Administrator establish a task force headed by a senior Agency official to ensure that all necessary improvements are accomplished and to avoid future cost exceptions.

Other Areas Requiring Management Attention

In addition to the accounting system issues, we noted the following areas where increased management attention is needed to ensure that:

- Contracts awarded under emergency procurement procedures are definitized in a timely manner.
- Property purchased with Superfund monies is identified in and controlled through the property management system.
- Invoices for payment are processed in a timely manner to avoid loss of discounts.
- Hurry-up year-end spending is avoided.

The findings developed during our audit are presented in detail in Part II - Findings and Recommendations. This initial audit dealt primarily with financial controls and procedures. We are currently conducting audits of program management and results, which will be topics of future reports.

Financial Results of Audit

The financial results of audit are summarized below and detailed in Exhibits C through J and referenced schedules.

Total Obligations	Obligations		
	Accepted	Questioned*	Set Aside**
$40,143,028	$36,841,341	$368,914	$2,932,773

*Questioned obligations represent costs that were definitely not related to CERCLA; these costs should be deobligated and transferred to the proper operating appropriation.

**In the absence of policies and procedures to precisely identify certain costs to the CERCLA program, we have set aside costs for further analysis and documentation by the Agency.

With the exception of costs questioned, and pending the resolution of costs set aside, the financial reports fairly present the financial position of Superfund as of September 30, 1981. As of this date, no claims were made against the fund.

MANAGEMENT RESPONSE

We provided a draft copy of our audit report, dated March 11, 1982, to the Administrator for her review and consideration. The Administrator generally concurred with our findings and recommendations. She stated that corrective actions had been initiated regarding some of our recommendations and that, pending certain legal and technical determinations, action would be taken to address most of the remaining recommendations. In the few instances where the Administrator disagreed with our specific recommendations, she has proposed alternatives that we will consider. We have incorporated the Administrator's comments after the pertinent findings in the body of the report. We have also included her complete response as Attachment I.

OIG'S COMMENTS

We have reviewed the Administrator's response to our report and met with senior Agency staff to obtain some additional information and clarification. We have concluded that management comments were responsive to our findings and recommendations. Where we considered it appropriate, we have included our own comments where management took exception with or offered alternatives to our recommendations.

PART II - FINDINGS AND RECOMMENDATIONS

ACCOUNTING SYSTEM AND PROCEDURES

Implementation of the CERCLA program was a massive task and, for an undertaking of this magnitude, was accomplished by EPA in a relatively short period of time. To facilitate this implementation, the Agency's existing accounting system and procedures, approved by the General Accounting Office (GAO) in 1977, were used to the maximum extent possible with little modification.

However, the implementation of CERCLA has imposed new and unique cost-accounting requirements on EPA. These new requirements, generated by section 111(a) of CERCLA, require basically that the Agency modify its present accounting system and procedures to provide job-costing capability. EPA needs to develop Agencywide guidance for its managers, and make enhancements to the present system and procedures, to ensure that Superfund is charged for only those costs which are "reasonably necessary for" and "incidental to" implementation of CERCLA. We found there was a lack of uniformity in the charging of similar costs. Costs were charged to Superfund which were not related to CERCLA, not supported by necessary supplementary records, or not allocated equitably.

Need for Agencywide Guidance

EPA needs to take action to issue Agencywide guidance to ensure that (1) managers make appropriate and uniform decisions on which costs are "reasonably necessary for" and "incidental to" implementation of CERCLA, and (2) supplementary records are maintained to evidence and justify such decisions. Absence of such procedures resulted in a lack of uniformity in approach to the charging of similar costs, and costs were charged to CERCLA which were not appropriate or adequately supported.

To provide guidance to Federal agencies and departments in preparing their budgets, EPA's Office of the Comptroller prepared a statement on the types of expenses that were chargeable to Superfund. This undated document, entitled "Superfund Federal Inter-Agency Budget Preparation Guidance," divided chargeable costs into two categories: (1) direct and incidental costs and (2) workyear (personnel) costs. It stated that direct costs were "All non-personnel compensation and benefit costs directly involved in carrying-out activities mandated by the law and provided for in the budget ('Superfund activities') which are chargeable in reasonable and appropriate amounts." Incidental costs were defined as "rent, communication, facility management, printing, and other incidental expenses necessary to carry out Superfund activities . . . ."

In our opinion, this guidance document did not effectively address the issue of what constitutes a reasonable and allocable cost, nor did it adequately address what supplemental records need to be maintained to evidence and justify spending decisions. In addition, the document did not discuss the need for the development of an acceptable cost allocation plan, supported by formal records, to substantiate the propriety of incidental costs charged to Superfund. Based on discussions with Agency managers, we found that this guidance document was not widely distributed.

Since there was very little Agencywide guidance, the Headquarters CERCLA program office and some of the support offices with CERCLA responsibilities drafted and issued their own guidance. Most of the guidance issued was administrative in nature, in that it addressed documents and procedures necessary for processing spending actions as opposed to specifying what constituted necessary and allocable CERCLA costs.

The Financial Management Officers Users Manual for the Hazardous Substance Response Program (FMO Users Manual), prepared by EPA's Financial Management Division (July 1981), and the Training Manual for Superfund Administrative Assistants (Training Manual), prepared by the Office of Emergency and Remedial Response (September 1981), required individual time distribution sheets to support site-specific time charges. Neither provided specific guidance about accounting for other Superfund payroll costs. As a result, timesheets were not prepared or maintained for support offices with CERCLA responsibilities, and costs were charged to Superfund that did not always benefit CERCLA activities. Consequently, the procedures in the two manuals were not sufficient to ensure that managers made appropriate and uniform decisions on charging salary costs which were not site-specific.

CERCLA guidance entitled Superfund Accounting Procedures (Accounting Procedures) was drafted by the Office of Water Programs Enforcement and issued by the Office of Solid Waste and Emergency Response on August 4, 1981. However, the Accounting Procedures were never officially transmitted to the regional offices for implementation. In our opinion, the Accounting Procedures could meet the administrative cost requirements specified in CERCLA. For example, the Accounting Procedures required that timesheets must be maintained to document time expended for site-specific and program management work. These time records were intended to reflect the time expended each day for each activity area (CERCLA and non-CERCLA activities). The Accounting Procedures required the timesheet to reflect at least eight hours per day and to be filled out daily. Thus, these timesheets would form the basic record to complete the timecards and the "Bi-weekly Summary for Timecards." The Accounting Procedures also included instructions for completing timesheets. Several examples of timesheets that could be used by individuals were also provided.

When Agency management formulates needed policies and procedures, it should consider section 111(a) of CERCLA, which limits the use of Superfund, and decisions rendered by the Comptroller General.

Section 111(a) provides: "The President shall not pay for any administrative costs or expenses out of the Fund unless such costs and expenses are reasonably necessary for and incidental to the implementation of this title." EPA's Office of General Counsel (OGC) was requested to render a legal interpretation of this section. In a memorandum on "Use of Superfund for federal and state administrative expenses," dated September 15, 1981, it was OGC's ". . . view that determining what administrative costs are reasonably necessary is a matter of administrative discretion, but that there is some indication that Congress intended this provision to be read narrowly rather than broadly." In the same memorandum, OGC also concluded ". . . that some necessary administrative costs can be charged against operating funds."

According to a decision rendered by the Comptroller General (50 Comp. Gen. 534 (1971)), expenses are "necessary for" or "incidental to" a program if they are needed for the "proper execution" of that program. The general rule is that "necessary expenses" must have a direct connection to or be essential for carrying out the stated general purpose for which funds are appropriated (52 Comp. Gen. 504, 505 (1973); 38 id. 758 (1959)). All direct costs (actual costs of removal and remedial actions) and administrative costs associated with the performance of CERCLA activities must meet the above criteria. However, administrative costs that benefit more than one program objective need to be allocated on an equitable basis which reflects the relative benefit the program receives. In general, to be allowable and allocable, costs under CERCLA should: (1) be authorized (or not prohibited) by CERCLA or Federal regulations; (2) be necessary and reasonable for proper and efficient administration of CERCLA; (3) be accorded consistent treatment throughout the Agency; and (4) not be allocable to or included as a cost of other Agency programs in either the current or the prior period.

Once adequate guidance is drafted which specifies allocable Superfund costs, all costs charged to Superfund must be accurately recorded and adequately supported. Specific recommendations pertaining to accounting procedures and records are included in subsequent findings of this report.

Recommendations

We recommend that:

1. The Administrator establish a task force headed by a senior Agency official, such as the Associate Administrator for Policy and Resource Management (PRM), to oversee and coordinate the development of Agencywide guidance on accounting for Superfund costs.

2. The task force take all necessary actions, including those recommended in subsequent findings of this report, to ensure uniform Agencywide accounting policies and procedures are implemented.

Management Response

These recommendations resulted from the Inspector General's (IG) findings that there was no agencywide guidance that fully detailed the procedures of documentation necessary to make proper charges to Superfund. Most of the recommended actions are already being undertaken at the Agency. Therefore, I believe, the creation of a special task force is unnecessary.

OIG's Comments

In view of the fact that most of the recommended actions have been undertaken, a task force may not be necessary. However, it is important that a senior Agency official be assigned responsibility for coordinating the issuance of Agencywide policies and procedures in a timely manner.

Personnel Compensation

During fiscal 1981, the Agency obligated $2,424,020 of Superfund monies for personnel compensation. Of the total amount obligated, we selectively tested $1,009,418 (42 percent). Except in Region 6, internal controls over personnel compensation were not adequate and necessary supplemental records were not always maintained. As a result, there was not a sufficient basis for expression of an opinion and we have disclaimed any opinion (set aside) on personnel compensation costs of $2,302,773. Details of costs set aside are shown in Exhibit D. We found numerous instances where: (1) budgetary considerations, rather than the actual time spent on CERCLA activities, controlled the charging of salary costs; (2) employees whose entire compensation was charged to Superfund acknowledged that they worked on non-CERCLA activities; (3) employees working on CERCLA activities were not charging their time to Superfund; and (4) when supplementary records (timesheets) were maintained, they were not always reconcilable to the hours recorded on the employees' Time and Attendance Reports (timecards).

The Agency utilizes the Department of the Interior's Computer Payroll System (DIPS). The payroll system is capable of allocating an employee's personnel compensation between two or more accounts. Each employee is assigned a fixed account number (FAN). This number appears in the upper right corner of the reverse side of the preprinted timecards. The FAN identifies the program (e.g., CERCLA) to which the employee is assigned, and all payroll costs are automatically charged to that FAN. However, payroll costs may be charged to another account number by recording the appropriate

account number and the hours charged on the reverse side of the timecard. This practice, referred to as "labor exception," should be used when an employee's labor benefits an activity other than that related to the employee's FAN. The cost of the labor is transferred from the employee's FAN to the benefiting account number. The procedures to be used for labor exceptions are detailed in the EPA Timekeeping Manual, chapter 7, entitled "Labor Cost Distribution."

Non-CERCLA Salary Costs Charged to Superfund

Salary charges to Superfund result when (1) labor exception procedures are used or (2) the employee has a Superfund FAN. These salary charges frequently were not supported by timesheets evidencing the total distribution of an employee's time among benefiting accounts. Such supplementary records should be maintained to support all salary costs charged to Superfund, even for employees with a Superfund FAN who charge 100 percent of their time to Superfund. We found many instances where the salary costs of employees not working on CERCLA activities were charged to Superfund. Many of these employees had a Superfund FAN, and 100 percent of their salary was charged to Superfund. Due to the lack of supporting labor distribution records, the amount of such mischarging could not be quantified.

At the majority of audit sites, employees were charging 100 percent of their time to Superfund but were also working on non-CERCLA activities. Employees at Headquarters and at Regions 2, 3, 4, and 9 admitted that although their entire compensation was charged to Superfund, they worked on non-CERCLA-related activities. At Region 3, 12 of 57 employees in our sample whose entire compensation was charged to Superfund admitted that they did not always work on CERCLA activities. Further, discussion with these employees, most of whom were administrative personnel, indicated that as much as 85 percent of their time charged to Superfund was not proper.

We found several instances where senior regional officials, responsible for many activities, charged 100 percent of their time to Superfund. Based on their positions and duties, it is doubtful that these employees worked 100 percent of their time in any given pay period on CERCLA activities.

In order to ensure the accuracy of future salary charges made to Superfund, the Agency will need to develop and implement a biweekly time distribution system. The system should require a full accounting for all of the time of employees charging to Superfund, on a full or part-time basis, during any given pay period. Regardless of whether salary costs are treated as direct or support costs, they must be supported by timesheets to satisfy the requirements of section 111(a) of CERCLA.

CERCLA Salary Costs Not Charged to Superfund

Not all CERCLA salary costs were charged to Superfund. In some cases these omissions were intentional; in others they were due to error or oversight. Although we consider the amounts involved to be material, we were unable to quantify this situation.

We found numerous instances where material amounts of payroll costs were intentionally not charged to Superfund. As an example, employees charged travel costs to Superfund without charging the corresponding payroll cost. In most instances, the travel was performed by administrative (e.g., Regional Counsel or Financial Management) staff personnel. Since the travel costs were allocable Superfund charges, the time spent to accomplish the purpose of the travel would also appear to be an allocable cost. In our opinion, all CERCLA-related costs should be charged to Superfund. Failure to record all expenses understates the costs incurred to operate the program. Responsible Agency officials told us that some personnel compensation costs were not charged to Superfund because CERCLA personnel compensation funds were too limited to absorb all costs. However, at EPA Headquarters we found that all four of the allowance holders who did not charge all such costs to Superfund had unobligated personnel compensation money available at the end of the fiscal year.

EPA's General Counsel issued a memorandum, dated September 15, 1981, on the "Use of Superfund for Federal and State Administrative Expenses." In this memorandum, General Counsel stated:

> ". . . it is our view that Section 111(a) can be read to permit charging certain administrative costs against other appropriations. Congress, recognizing that the Fund might be insufficient to meet even known problems, sought to preserve the Fund for response actions. While Congress has limited administrative expenses chargeable against the Fund, there is no basis for concluding that Congress either did not recognize that there might be additional costs associated with the program or intended to make the Fund the only resource available for administrative costs. It seems reasonable that Congress intended some Superfund administrative costs to be included in those costs incurred by agencies in carrying out their general responsibilities, including Superfund.
>
> "In sum, it is our view that determining which administrative costs can be charged against the Fund is a matter of administrative discretion and that some necessary administrative costs can be charged against operating funds."

The opinion rendered by EPA's General Counsel addresses the legal acceptability of charging CERCLA expenses against other appropriations. However, it is our opinion that as long as CERCLA funds are available to support offices, all CERCLA-related activity costs should be charged to Superfund. Only at the time a support office with CERCLA responsibilities has expended its CERCLA budget should administrative costs be charged to an operating appropriation. In addition, we believe that timesheets should be prepared and maintained by all EPA personnel who work on CERCLA activities whether or not their salary costs are charged to Superfund. Timesheets provide a record which management can use to evaluate the allocation of resources and the necessity for any reallocation.

We identified errors of omission totalling approximately $114,000. These errors occurred because (1) not all hazardous waste site account numbers were entered into the payroll system and (2) time was not properly allocated on the timecards. EPA allowance holders should regularly review the Payroll Distribution Report (RCB-3A) to ensure errors of omission are identified and corrected in a timely manner. The RCB-3A report details the name, hours, dollars, and object class of payroll costs charged to an allowance holder. Reconciliation of the RCB-3A report to employees' timecards is an important internal control to ensure that the hours worked on CERCLA, as shown on the timecards, agree with the hours recorded in the accounting system. Without this verification process, there is no assurance that only appropriate expenses are charged or that all charges are properly recorded to Superfund.

Recommendations

We recommend that the task force:

1. Take necessary actions to:

   a. develop a time distribution form which employees must use to distribute actual time worked among two or more accounts;

   b. revise chapter 7 of the Timekeeping Manual to require that the above form, completed by employees and approved by their supevisor, document time distributed on time and attendance reports between any accounts, including but not limited to Superfund accounts; and

   c. inform the applicable program offices and support organizations that only salary costs supported by timesheets can be charged to Superfund and that salary costs not supported by timesheets will be questioned in future audits.

2. Require that:

   a. employees who did not maintain time distribution records, but charged salary costs to Superfund, prepare a written certification of the percentage of time they performed CERCLA work;

   b. the Division Director of such employees approve the above certifications; and

   c. the personnel compensation obligated for Superfund be adjusted as necessary to reflect the effect of the above certifications.

3. Draft and issue guidance requiring that timesheets be prepared and maintained by all personnel who work on CERCLA activities.

4. Draft and issue guidance stating that offices with CERCLA responsibilities can charge Superfund salary costs to their normal operating appropriation only when their Superfund payroll budget is exhausted. They should emphasize also that any cost that can be attributed to a specific site must be charged to Superfund in order for EPA to recover all direct costs from responsible parties.

5. Issue a directive to all allowance holders, reminding them of their responsibilities to control funds, including the reconciliation of financial management reports to supplementary records.

Management Response

The auditors found that much of the time charged to Superfund in FY 1981 was not documented by timesheets or other methods, that some time charged was in fact spent on non-Superfund tasks, and that some time that was spent on Superfund tasks was charged to other appropriations.

Some offices in the Agency have already initiated Superfund timekeeping procedures, and we are building on this effort. The Agency has recently developed a new time distribution policy which will be formalized and submitted to you next week. Subsequent to your review, the Agency will issue the policy and revise chapter 7 of the Timekeepers Manual. A statement of this policy will also be included in appropriate allowances sent to all EPA offices. Where feasible, the proposed time distribution policy will be consistent with recommendation 4. The proposed policy will not require documentation of charges to non-Superfund accounts. No other program in the Agency requires that level of substantiation. We deem it inefficient to spend precious time building an audit trail that will not be used.

Recommendation 2 appears to be a satisfactory method of substantiating FY 1981 charges that did occur, and will be implemented where legally and technically feasible. It should be noted, however, that it makes no allowance for charging FY 1981 for work performed on Superfund that was not previously charged. One problem with recommendation 4 is that if an office had site-specific and non-site-specific functions and not enough Superfund payroll to cover both, strict application of this recommendation could result in exhaustion of Superfund payroll costs on non-site-specific efforts if they occurred before the site-specific work. This would leave only normal operating funds to cover the site-specific work.

OIG's Comments

The proposed policy will not require documentation of charges to non-Superfund accounts. Discussions with senior Agency personnel revealed they wanted to continue using the labor exception method to account for CERCLA salary costs. In our opinion, the labor exception method is not acceptable to account for salary costs. We recommend that all employees who work on CERCLA activities maintain timesheets that will account for all their time within any given day. The maintenance of timesheets is not a time consuming task, and we will be substantiating that CERCLA salary costs are supported by timesheets.

Although other program offices are not currently requiring the same level of substantiation that is required under CERCLA, we believe management should study and consider making such a requirement. We have not performed an Agencywide review, but an audit performed in Region 4 pointed out that employees of other programs frequently worked on activities other than those covered by their assigned fixed account number. Salary funds are budgeted and allocated on an account number basis. Comparisons of actual with budgeted efforts may be distorted if the accounting system does not always reflect the true distribution of employee labor effort.

We concur with management's comments that CERCLA costs incurred after June 8, 1981 that were not previously charged should be charged to Superfund. We also concur with management's comments on recommendation 4; however, a policy statement is needed to address this issue.

Rent, Communication, and Utilities

The Agency needs to develop an acceptable cost allocation plan to recover support service costs (rent, communication, and utilities) from Superfund. During fiscal 1981, the Agency obligated $670,190 to reflect Superfund's share of support service costs. Of the total $670,190 obligated, we tested $663,315 (99 percent). We have questioned $20,545 and set aside $630,000 of support service costs because: (1) supporting documentation was not available for review ($630,000); (2) the allocation was not equitable ($15,927); and (3) the charge was not directly related to the CERCLA program ($4,618). Details of costs questioned and set aside are shown in Exhibit F.

CERCLA states under Section 111(a) that "The President shall not pay for any administrative costs or expenses out of the Fund unless such costs and expenses are reasonably necessary for and incidental to the implementation of this title." The Agency incurred various expenses incidental to several programs, including the CERCLA program. A portion of these costs was allocated to Superfund. To ensure that indirect costs allocated to a program are fair and reasonable, the Agency needs to accumulate the actual costs incurred; identify and document the base which best measures the relative degree of benefit each program received; and compute each program's share of actual costs using the selected base.

The allocation of rental and communication costs by Headquarters and two regional offices was not equitable. In two instances, the allocation was based on budgetary figures. In our opinion, budgetary figures are not a reasonable base upon which to allocate costs. Space or workyears would be a more equitable base. Costs should be allocated by means of a documented base which best measures the relative degree of benefit. We have set aside $630,000 in this cost category because the supporting documentation was not available to substantiate the reasonableness and equitability of the allocation.

We have questioned $15,927 of obligations charged to Superfund for the chargeback of support services at the Cincinnati Municipal Environmental Research Laboratory (MERL). The procedures used by the Cincinnati Financial Management Office (FMO) to allocate EPA Headquarters support services to EPA activities in Cincinnati were not equitable. As a result, the allocation of support services to Superfund was overstated by $15,927.

We have questioned $4,618 obligated and disbursed for utility services for the lab at Edison, New Jersey. The $4,618 utility bill was originally charged to another program, but was transferred to Superfund by an adjusting entry made by the Cincinnati FMO. There was no supporting documentation at the FMO to show why this expense was charged to Superfund. According to MERL's written response to the draft audit report, this charge was made to Superfund to offset numerous other unrecovered charges to Superfund during fiscal 1981. We have questioned the $4,618 because it was not specifically related to CERCLA activities.

In order to reduce the potential for misallocation of costs to Superfund, the Agency needs to develop and implement policies and guidelines to ensure the consistent allocation of support costs throughout the Agency. Any allocation plan must reflect the actual degree of benefit received by each program.

Recommendations

We recommend that:

1. The Assistant Administrator for Administration reduce Superfund obligations by $20,545 and transfer these costs to the proper operating appropriation.

2. The task force prepare an equitable cost allocation plan for rent, communication, and utilities, and then adjust the Superfund obligations as necessary to reflect the CERCLA program's share of fiscal 1981 support service costs. Unless such an allocation plan is prepared, Superfund obligations should be reduced by the $630,000 of unsupported charges.

Management Response

The auditors found two situations that caused these recommendations. First, support costs were charged based on budgeted amounts or estimates. Second, costs that were inappropriate were charged to Superfund accounts. Recommendation 1 corrects these latter charges and will be implemented, where legally and technically feasible. Recommendation 2 requires that an allocation plan be prepared to substantiate actual FY 1981 and future costs. Initial efforts to prepare this plan have begun in the Office of Administration. Where legally and technically feasible, the plan will be used to make adjustments to FY 1981 and actual charges for FY 1982.

Equipment, Supplies, and Materials

During fiscal 1981, the Agency obligated $2,617,853 for equipment, and $273,642 for supplies and materials. Of the total amount obligated ($2,891,495), we selectively tested $1,219,141 (42 percent). We have questioned equipment, supplies, and materials costs of $125,425 because (1) there was insufficient documentation to support cost allocations and (2) the items purchased were for general support of the Agency rather than primarily for CERCLA activites. Details of questioned costs are shown in Exhibit H.

The methods used to determine administrative nonpayroll costs applicable to Superfund were not always adequate. Generally, these costs were incurred by support offices with CERCLA responsibilities rather than the CERCLA program office. In most instances the decision to charge Superfund for the cost was based on an unsupported workload or usage estimate. Consequently, there was no basis to determine whether these costs benefited CERCLA activities in proportion to the amount charged to Superfund. In some instances, it appeared unlikely that CERCLA benefited from the expenditures. As cited previously, administrative costs were limited by section 111(a) of CERCLA to those which were "reasonably necessary for" or "incidental to" CERCLA. Expenses are "necessary" or "incidental" to a program if they are needed for the "proper execution" of that program. The general rule is that "necessary expenses" must have a direct connection to or be essential for carrying out the stated general purpose for which funds were appropriated.

Superfund was charged for the cost of certain equipment, supplies, and materials which, by nature, appeared to be suitable for applications and uses other than by the CERCLA program. If a cost is incurred that can benefit more than one objective, procedures must be developed to determine an equitable share for each objective.

For example, the Central Regional Laboratory (Region 5) charged $19,427 for general purpose equipment, supplies, and materials to Superfund. Because the Central Regional Laboratory provides general analytical and technical support to various EPA program offices, it appears the equipment and materials purchased with Superfund monies will benefit other programs as well. The Laboratory maintained no records to show the actual utilization of equipment and supplies by the various programs. Allocation of costs was based on management's estimate of the workload and budget resources available. Consequently, there was no assurance that these allocations were reasonable and proper.

In other cases, items purchased appeared to have no direct benefit to CERCLA activities. This was evidenced at two regions. In Region 5, ADP terminals costing $5,874 and office furniture costing $3,086 were purchased with Superfund monies. In Region 3 a photocopier costing $40,000 and a video cassette recorder costing $1,200 were charged to Superfund. In our opinion, these purchases were for the general support of the Agency and CERCLA received minimal or no real benefit from these expenditures. In addition, CERCLA personnel at Region 5 had no knowledge of the office furniture purchased, and we could not locate the chairs and desks purchased with Superfund monies.

Recommendations

We recommend that:

1. The Assistant Administrator for Administration reduce Superfund obligations by $125,425 and transfer these costs to the proper operating appropriation.

2. The task force:

   a. establish procedures to ensure that Superfund is charged in proportion to the benefits received when an item purchased can benefit more than one objective. Such procedures might include the maintenance of equipment utilization records or the development of fee schedules for laboratory services.

   b. develop and implement policies and guidelines to ensure that future acquisitions have a direct connection to or are essential for carrying out the stated general purpose for which funds are appropriated. Procedures could include a Headquarters prior approval requirement for certain items (camera, video cassette recorders, photocopy machines) and items with a unit price in excess of a set financial limit.

Management Response

These recommendations resulted from findings that some offices have charged Superfund for the full purchase cost of certain equipment and supplies that were only partially, or were not, used for Superfund (or where Superfund use was undeterminable).

Discussions with the relevant offices will be held by the Office of Administration to determine the technical and legal feasibility of implementing recommendation 1. Portions of recommendation 2 have already been implemented. For example, the Assistant Administrator for Administration is currently signing off on all Agency equipment purchases in excess of $5,000. In addition, we are reviewing alternative methods of documenting purchases made with Superfund money. One method being reviewed was recently implemented by the Office of Administration for internal use. It established approval levels and requires the written justification of the use of Superfund monies.

Other Miscellaneous Charges Unrelated to CERCLA

We found isolated instances where contract costs unrelated to CERCLA activities were inappropriately charged to Superfund. At the Research Triangle Park Environmental Monitoring Systems Laboratory (EMSL), $150,000 in unused extramural funds were "escrowed" under a general purpose contract to avoid returning them to Headquarters at the end of the fiscal year. The extramural funds of $150,000 were obligated in September 1981 by modifying an existing contract. The existing contract was a general purpose contract for quality assurance and technical support for the State, Local Air Monitoring System (SLAMS). The funds were added to the contract under the limitation of funds clause to cover the contractor's performance for the contract period ending December 30, 1981. EMSL personnel stated that: (1) the extramural funds were obligated under the contract as a means of escrowing them so that the funds would not be lost if they were returned to EPA Headquarters at the end of the fiscal year; and (2) the escrowed funds would be returned to the CERCLA program when the fiscal 1982 air program allowance was received. Based on the statements of EMSL personnel, it was apparent that the extramural costs were not "reasonably necessary for" or "incidental to" the implementation of CERCLA and, as such, were not chargeable to Superfund. As a result, we have questioned the $150,000 charged to Superfund by EMSL.

At the Cincinnati MERL, $11,335 was charged to Superfund for a contract which did not benefit the CERCLA program. This contract was to close out and remove all exposed force main and electrical conduit at three pump stations. Program representatives agreed that the obligation should not have been charged to Superfund. However, they explained that this contract was obligated to Superfund to offset numerous other costs that

should have been charged but were not because Superfund monies were not available until the fourth quarter of fiscal 1981. We have questioned the $11,335 as invalid Superfund costs.

Recommendations

We recommend that:

1. The Assistant Administrator for Administration deobligate EMSL and MERL contract costs that were inappropriately charged to Superfund and transfer the costs to the proper appropriation.

2. The task force issue a directive to all CERCLA program offices and support offices with CERCLA responsibilities, limiting Superfund obligations to only those items which are necessary for and incidental to CERCLA activities.

Management Response

The auditors contend that two contracts were inappropriately charged to Superfund accounts. If the auditors' contention is true, which we will seek to determine, then recommendation 1 should be implemented by the Office of Research and Development. We will address recommendation 2 as part of our review of alternatives to document Superfund purchases.

OTHER AREAS REQUIRING MANAGEMENT ATTENTION

During our audit, we noted additional areas where management attention is needed. Two such areas directly related to CERCLA were timely definitization of contracts for emergency response actions and controls over property purchased with Superfund monies. Two other areas, more general in nature, which impacted the Superfund appropriation were loss of discounts due to untimely payment of invoices and hurry-up year-end procurement actions.

Definitizing Contracts

The Procurement and Contracts Management Division (PCMD) needs to definitize contracts awarded under emergency procurement procedures in a timely manner. During fiscal 1981, 17 such contracts were awarded with obligations totalling $3,307,313. None of the contracts were definitized within 30 days as required by the emergency procedures. PCMD officials told us that none had been definitized by the end of January 1982, at which time all of the awards were at least 123 days old and some were over 184 days old.

These emergency awards were made via a Notice to Proceed with Emergency Response to Hazardous Substance Release, EPA Form 1900-49 (Notice to Proceed). The Notice to Proceed is a preliminary contractual instrument that authorizes the contractor to start work. The initial notice may obligate up to $50,000. Payments to the contractor are for time and materials, i.e., on the basis of direct labor hours at fixed hourly rates, with material, subcontracts, and travel reimbursed at actual cost. The Notice to Proceed must be definitized, i.e., replaced by a negotiated contract, within 30 days. Article III of the Notice to Proceed states:

> B. This notice to proceed will be superseded by a definitive contract within thirty (30) calendar days after the effective date of this notice, unless an extension thereof is granted by the designated Contracting Officer. Failure to execute a definitive contract within the time specified above will be treated as a dispute under the 'Disputes' clause of this notice to proceed.

The contracting officers from PCMD should have conducted negotiations to definitize these contracts. These type of negotiations should generally concentrate on the type of contract, the scope of work, and the price. Within 30 days, the situation usually should have stabilized enough for the scope of work to be clarified. The contracting officer can then select the best type of contract and negotiate the price. Meanwhile, the work progresses and the contractor is paid. However, the rates of reimbursement under the Notice to Proceed are from the contractor's price list. The Agency negotiates these prices only to the extent of obtaining long-term rates, such as weekly or monthly, and lowering rates which are obviously unreasonable.

The contracting officers had extended the period of performance for these 17 contracts and increased the obligated amount where necessary. According to PCMD, the contracts were not definitized in a timely manner because: (1) PCMD lacked sufficient contracting officers; (2) the scope of work was too variable to definitize it, especially when drums were involved; and, (3) requested audits of the price lists were not performed. We did not extend our audit to determine the adequacy of PCMD resources.

Not all sites contain drums, but the scope of work is difficult to specify when drums are involved. The contents of each drum may or may not have to be analyzed. Some drums may contain numerous vials, all of which have to be analyzed. Additionally, drums may be buried at the site. Each of these situations has occurred. However, the contracting officer can select a type of contract to suit such variability. For example, cost-reimbursement contracts could be used.

The failure to definitize contracts in a timely manner weakens the Agency's negotiating position. Once the work has been completed, it may be difficult to reduce the price since the contractor will probably have been paid 95 percent of the amount billed the Agency. In addition, on-scene coordinators (OSCs) informed us their job was made more difficult because they did not always know what was to be paid under the undefinitized contracts. We are currently performing audits of emergency response contracts and will be issuing reports detailing any effects of failure to definitize the contracts in a timely manner.

Recommendation

We recommend that PCMD take appropriate actions to definitize existing contracts and ensure future contracts are definitized in a timely manner.

Management Response

During FY 1981 and even now, in each emergency response in which EPA becomes involved where contractor support is needed immediately, such support is obtained under an emergency contracting procedure called a "Notice to Proceed with Emergency Response to Hazardous Substance Release." This procedure allows a contractor to start work and spend up to $50,000 per site. The Notice to Proceed must be definitized, i.e., replaced with a negotiated contract, within 30 days unless properly extended. As of January, when all of the notices issued in FY 1981 were at least 124 days old, none had been definitized.

While all of the notices have been properly extended, it is in the Agency's best interest to definitize these contracts as early as possible. In the short run, the Office of Administration has redirected its Superfund contracts personnel to address this problem. Progress is being made. For the long run, the Agency is now in the process of awarding a national contract to cover emergency responses so that the Notice to Proceed procedure may be eliminated.

Property Management

We requested a listing of all CERCLA property at the beginning of our audit, but were informed such information was not available in EPA's property management system. The $2,617,853 of property purchased with Superfund monies was not identified as such in the Agency's property records. Property purchased for CERCLA was commingled in the property accounts with all other Agency property.

The Environmental Protection Property Management Regulations (EPPMR) generally provide that appropriate controls be exercised, and prescribed procedures followed, to ensure proper accountability over the acquisition, use, and disposition of all property. However, with the advent of the CERCLA program, new policies and procedures need to be promulgated and implemented to govern the acquisition, use, and disposition of property furnished in whole or in part with Superfund monies.

To adequately identify and account for CERCLA property, separate property accounts and/or a unique identification number need to be established for all accountable items of property purchased in whole or in part with Superfund monies. Accountable items are those which cost over $500 or are sensitive in nature. Separate identification of and accountability over CERCLA property would provide "visibility" and enable more effective management. In addition, if CERCLA property is transferred out of the CERCLA program or disposed of in any other way, the fund should be credited with the residual value of the transferred property. We believe such an adjustment is necessary because of the uniqueness of CERCLA funding and the limitations placed on CERCLA expenditures. EPA should be able to clearly demonstrate that property acquired for CERCLA is being used for CERCLA, and that Superfund receives appropriate credit for any property transferred to other programs.

We also found that many of the property accountable areas were not in compliance with the procedures prescribed in the EPPMRs. Weaknesses and noncompliance were found in the areas of: (1) tagging of equipment; (2) input to and update of the property records; (3) transfer of property between custodial areas; (4) performance of annual inventories; and (5) followup on missing items of property. These findings were reported to or discussed with appropriate responsible Agency managers in each of the applicable component audits.

Recommendations

We recommend that the task force:

1. Develop and implement guidance to establish and maintain some means by which CERCLA property can be uniquely identified through the Agency's property management system.

2. Promulgate and implement policies and procedures specifically governing the acquisition, use, and disposition of CERCLA property. The policies should include a requirement that Superfund be credited with the residual value of CERCLA property transferred to another program.

Management Response

These recommendations result from an audit of all Agency property since Superfund property could not be separately identified and subjected to audit. While the recommendations appear reasonable, the Agency needs to examine the legal and technical feasibility of implementing these changes.

Discounts Lost

The Agency was unable to take advantage of substantial discounts offered for prompt payment because of delays in processing contractor invoices. A review of all contractor invoices for emergency response actions submitted to the Research Triangle Park FMO revealed an average processing time of 37 days. Contractors generally offered discounts for payments made within 15 days. Due to the limited number of payments, there were no discounts lost in fiscal 1981. However, a limited review of invoices processed for Region 4 contractors during the first quarter of fiscal 1982 disclosed $14,510 in discounts lost due to processing delays.

According to financial management personnel, processing delays were primarily attributable to the OSCs' failure to approve invoices in a timely manner and return them to the FMO for further processing. A guidance document prepared by the Financial Management Division in July 1981, entitled On-Scene Coodinator User Manual for Financial Reporting in the Hazardous Substance Response Program, states that the OSC is responsible for reviewing and certifying contractor invoices prior to payment. In addition, the OSC must approve and certify the invoices within two workdays after receipt. Another guidance document, entitled Interim Emergency Procurement Procedures for Hazardous Substance Response Program (revised), prepared by the Procurement and Contracts Management Division, December 5, 1981, states: "Within seven (7) calendar days of receipt of the copy of the invoice or voucher, the OSC shall sign the certification and forward the certified copy of the invoice or voucher to the paying office." Compliance with either guidance document would reduce processing time by a minimum of six days. In addition, EPA's Accounting Manual, dated July 1979, requires the FMOs to expedite payments when necessary to take advantage of discounts.

Some contractors are offering discounts of five percent for payment within 15 days. The Agency will be unable to take advantage of these discounts unless substantial improvements in processing time are made by both the OSCs and the FMOs. If EPA is unable to consistently meet the 15-day limitation on invoice processing time, the Agency should consider making

payments based solely on the contractor's certification. This would enable the Agency to reduce processing time and take advantage of discounts offered for prompt payment. The invoices could still be reviewed by the OSC, and any adjustment could be made against the next invoice submitted by the contractor. Any risk in this practice could be reduced by increasing the standard contract retainage. Also, payments could be suspended if the OSC determines from daily monitoring that the contractor's performance is unsatisfactory.

The accounting system has a general ledger account (account number 601.8) in which discounts lost should be recorded. The use of the discounts lost account provides a good control for management to quantify the amount of lost discounts. Upon evaluation of the account, management can prepare an action plan to eliminate or lessen the loss of discounts.

Recommendations

We recommend that the Assistant Administrator for Administration:

1. Issue guidance to inform OSCs of the need to process contractor invoices in a timely manner so the Agency can take advantage of discounts offered for prompt payment.

2. Consider changing current procedures to allow payments based solely on a contractor's certification, if EPA is unable to consistently take advantage of discounts offered for prompt payment.

3. Emphasize to the Financial Management Offices the importance of expediting the processing of invoices in instances where discounts are offered for prompt payment.

4. Instruct the Financial Management Offices to use general ledger account number 601.8, Discounts Lost, to record discounts offered but not taken on vendors' invoices.

Management Response

The auditors found that invoices were not being paid promptly enough to allow paying offices to take prompt payment discounts offered by Superfund emergency response contractors. They cited a requirement that the on-scene coordinator approve and certify contractor invoices before payment is made as one factor that prevents payment from occurring promptly. Recommendation 2 suggests that this requirement be dropped if the process cannot be otherwise speeded up through recommendations 1 and 3. I do not accept recommendation 2 because it is not a good business practice. The Agency has recently implemented the project officer certification process on all contracts and grants after finding that one grantee, because no

one had to certify the appropriateness of his invoices, had drawn the entire balance from his letter of credit long before he completed work or expended funds on the grant. Seven to eight years ago, EPA abandoned project officer invoice certification over this same issue on the grounds interim audits would be regularly performed. These have not been done on a timely basis, and it is often years before final audits are completed. In lieu of prompt interim audits, the most appropriate defense against this type of abuse is project officer invoice certification.

OIG's Comments

Management, while rejecting recommendation number 2 in its entirety as a poor business practice, never addressed recommendations 1, 3, and 4. During our conference with senior Agency staff, we were informed that they are continually sending memos to EPA's Financial Management Offices directing them to take advantage of discounts offered. A good control for management to quantify the amount of discounts being lost would entail recording all lost discounts in a general ledger account. Management would then have an accurate accounting (dollar value) of discounts lost. Only then would management be capable of analyzing the effect of the lost funds on the program and seriously considering recommendation number 2.

Year-End Spending

At EPA Regions 9 and 10, "11th hour" expenditures of $46,802 were charged to Superfund during fiscal 1981. Regional officials told us they were contacted by EPA Headquarters personnel near the end of the fiscal year and asked if they could use (obligate and spend) additional Superfund equipment money. The motive for this action was unclear, but the possibility exists that some Headquarters personnel believed Superfund was a one-year appropriation, and perhaps did not want the funds to revert to the Comptroller's Office at the end of the year. As a result, Region 9 obligated $4,485 and Region 10 obligated $42,337. The purchased or ordered equipment was charged to the Headquarters Office of Emergency and Remedial Response.

Hurry-up year-end spending does not ensure efficient and economical procurement actions. Such spending is contrary to the Office of Management and Budget (OMB) Policy Letter 81-1, "Procurement Procedures, Advance Procurement Planning, and Review of End-of-Year Purchases," dated August 13, 1981. OMB Policy Letter 81-1 states:

> It is the responsibility of the head of each agency to assure efficient and economical procurement. Consistent with that responsibility is an obligation to reduce wasteful practices resulting from hurried unnecessary end-of-year procurement.

Recommendation

We recommend that the Assistant Administrator for Administration inform all EPA offices of the limitations OMB Policy Letter 81-1 placed on hurry-up or unnecessary end-of-year procurements.

Management Response

This recommendation resulted from a finding that Regions 9 and 10 were allowed to spend headquarters funds late in the fiscal year. The Agency has internal procedures that meet the requirements set forth in OMB policy letter 81-1. The Superfund program is funded through a no year appropriation, with all funds available until expended. Additionally, congressional and OMB restrictions on fourth quarter expenditures did not pertain to this program in 1981. As the Agency did not have authorization to obligate Superfund dollars until the final quarter of fiscal 1981, I do not concur with the presumption that these expenditures were conducted in a hurry-up fashion.

OIG's Comments

Based on discussions with responsible regional officials, it appeared that these were "11th hour" expenditures. Regional personnel were contacted in September 1981 and asked if they could use (obligate and spend) additional Superfund equipment money before the end of the fiscal year. These appeared to be isolated instances and not a part of a pattern. However, such hurry-up year-end spending does not ensure efficient and economical procurement actions.

Matthew N. Novick

Matthew N. Novick

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Exhibit A

Status of Hazardous Substance Response Trust Fund
September 30, 1981
(Note 1)

	Current Month	Fiscal Year To Date	References
Balance-Beginning of Period	$113,274,861	$	
Receipts			
Transfer from Coast Guard		6,742,875	Schedule A-1
Excise Taxes	23,900,000	127,900,000	
Appropriation from General Fund		9,000,000	
Interest Income	1,330,456	1,330,456	
Total Receipts	$ 25,230,456	$144,973,331	
Expenditures			
Environmental Protection Agency	1,570,639	8,038,653	Note 2
Balance-End of Period	136,934,678	136,934,678	

Statement of Financial Condition

Assets:			
Undisbursed Balance (20X8145)	8,839,154		
(68-20X8145)	49,707		
(15-20X8145)	173,280	9,062,141	1/
Investments: MK Bills			
Maturing December 11, 1981	135,935,000	135,935,000	
Less Unamortized Discount		8,062,463	
Total Assets		136,934,678	
Liabilities:	-0-		
Equity:			
Excess Assets over Liabilities	136,934,678		
Total Liabilities and Equity		136,934,678	

1/ Uninvested balance of appropriation is $9,062,141.

References:

Note 1: This status report was developed by the Department of Treasury.

Note 2: This figure represents the amount which the Department of Treasury transferred to EPA's Treasury account from Superfund for disbursements during fiscal year 1981.

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Schedule A-1

Environmental Protection Agency
Status of Hazardous Substance Response Trust Fund
Transfer From U.S. Coast Guard

September 30, 1981

	Current Month	Fiscal Year to Date
Total Transfer (20X8145)	$	$6,742,875
Expenditures		
EPA Trust Fund (68-20X8145) Reimbursement to U.S. Coast Guard		5,218,648
Balance of Transfer from U.S. Coast Guard (20X8145)	1,524,227	1,524,227

Note: The remaining unexpended balance from U.S. Coast Guard Transfer in the Hazardous Substance Response Trust Fund (20X8145) is pending additional billing from U.S. Coast Guard. This statement includes June 1981 billing.

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Exhibit B

Hazardous Substance Response Trust Fund
Statement of Financial Activity
Audit Sample Defined by Location

Region	Approved Operating Plan	Obligated (Universe)	Audit Sample	Percentage Sampled	References
1	$ 307,100	$ 251,974	$ 233,590	93	
2	550,000	435,948	171,278	39	
3	398,700	218,839	209,876	96	
4	499,600	313,581	229,426	73	
5	745,100	436,216	323,352	74	
6	430,600	300,298	131,407	44	
7	240,900	14,664			Note 1
8	180,200	128,357			Note 1
9	323,400	133,568	115,606	87	
10	187,000	128,716	120,263	93	
Laboratory— Cincinnati		13,843,415	10,017,617	72	Notes 2 & 3
Laboratory— Research Triangle Park		16,908,054	13,472,108	80	Notes 2 & 3
Laboratory— Las Vegas		2,305,600			Notes 2 & 4
Headquarters (Wash., D.C.)	59,880,300	4,723,798	1,325,536	28	
Total	$63,742,900	$40,143,028	$26,350,059	66	

References:

Note 1: Audits were not performed in Region 7 or Region 8 due to the relatively low dollar value obligated against Superfund.

Note 2: The budgetary figure for the laboratories was included under the Headquarters budget.

Note 3: The primary audit areas at these locations were the Cincinnati MERL and FMO and the Research Triangle Park EMSL and FMO. The Cincinnati FMO is responsible for interagency agreement and contract payments. The Research Triangle Park FMO is also responsible for contract payments.

References: (Continued)

Note 4: The Las Vegas FMO is responsible for cooperative agreement payments. We did not perform an on-site audit at this location since there was only one cooperative agreement awarded during fiscal 1981 (State of New Hampshire—$2,305,600) and no disbursements were made. In addition, the Office of the Inspector General is now auditing this cooperative agreement.

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Exhibit C

Hazardous Substance Response Trust Fund
Statement of Financial Activities and Results
of Audit by Object Classification

Object Class Description	Total Obligations	Obligations Accepted	Obligations Questioned	Obligations Set Aside	References
Personnel Compensation and Benefits	$ 2,424,020	$ 121,247	$	$2,302,773	Exhibit D
Transportation of Persons and Things	312,471	301,962	10,509		Exhibit E
Rent, Communication, and Utilities	670,190	19,645	20,545	630,000	Exhibit F
Printing and Reproduction	6,691	6,691			
Other Contractual Services	108,826	86,391	22,435		Exhibit G
Equipment, Supplies, and Materials	2,891,495	2,766,070	125,425		Exhibit H
Interagency Agreements	7,731,375	7,731,375			Exhibit I, Note 1
Contracts	23,231,594	23,041,594	190,000		Exhibit J, Note 1
Research Grants	460,766	460,766			Note 1
Cooperative Agreements (with State Governments)	2,305,600	2,305,600			Note 1
Total	$40,143,028	$36,841,341	$368,914	$2,932,773	

Reference:

Note 1: Costs were accepted only to the extent that valid obligation records were maintained. At a later date, final audits of contracts, interagency agreements and cooperative agreements may disclose questioned costs.

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Exhibit D

Hazardous Substance Response Trust Fund
Schedule of Personnel Compensation and Benefits

Audit Areas	Total Obligations (Note 1)	Obligations Accepted	Obligations Questioned	Obligations Set Aside	References
Region 1	$ 162,790	$	$	$ 162,790	Note 1
Region 2	226,200			226,200	Note 1
Region 3	117,331			117,331	Notes 1 & 2
Region 4	161,037			161,037	Notes 1 & 3
Region 5	327,106			327,106	
Region 6	137,333	121,247		16,086	Notes 1 & 4
Region 8	99,127			99,127	Note 5
Region 9	79,864			79,864	Note 1
Region 10	110,774			110,774	Note 1
Headquarters	1,002,458			1,002,458	Notes 1 & 6
Total	$2,424,020	$121,247	$ -0-	$2,302,773	

References:

Note 1: With the exception of Region 6, where we found proper documentation was usually maintained, we have disclaimed an opinion on personnel compensation. Internal controls were not adequate, and necessary supplementary records were not always maintained to support salary costs charged to Superfund. We noted that in some cases Superfund was overcharged, but in other cases Superfund was undercharged. However, because timesheets were not kept by employees, we were not always able to quantify this over- and under-charge. We have therefore set aside all salary costs except for those incurred in Region 6.

For details, see the narrative portion of this report entitled "Personnel Compensation and Benefits."

Note 2: Additional salary costs of $10,552 should have been charged to Superfund. These costs were payroll charges for the last two pay periods of fiscal 1981, which were not recorded against Superfund.

Note 3: Additional salary costs, supported by timecards and other documentation, amounting to $87,818 personnel compensation were not recorded against the fiscal 1981 Superfund appropriation. The amount consisted of the following:

References: (Continued)

(a) Labor exceptions of $33,019 were recorded on timecards, but not properly recorded into the payroll system.

(b) Public Health Service employees' salaries totalling $27,432 were charged to the incorrect appropriation.

(c) End-of-year payroll costs totalling $27,367 were not properly recorded. These payroll costs were incurred during the last eight days of fiscal 1981. Because the end of the pay period did not coincide with the last day of the fiscal year, the last eight days of fiscal 1981 were commingled with the first two days of fiscal 1982. The total payroll costs for this period (pay period 01 of fiscal 1982) were recorded in fiscal 1982, instead of being split between fiscal years 1981 and 1982. The $27,367 represents fiscal 1981 payroll costs which were not recorded against the Superfund appropriation.

Note 4: In Region 6 we have accepted all salary costs which were supported by timesheets. We have set aside $16,086 of salary costs in Region 6 which were not supported by timesheets.

Note 5: Although we did not perform audits at Regions 7 and 8, we have set aside salary costs because of the widespread problems concerning the lack of adequate support documents noted in the other audit areas.

Note 6: Personnel compensation was understated in some instances for Headquarters personnel. Details of the understatements are as follows:

a. The payroll system rejected $2,300 of site-related time because the proper account numbers were not input. The Agency uses the Departmental Integrated Personnel and Payroll System (DIPS) operated by the Department of the Interior. The Agency provides Interior with valid account numbers each week, and DIPS personnel are responsible for entering the account numbers in DIPS. During the fourth quarter of fiscal 1981, the Agency informed Interior that site-related data were not being accepted by DIPS. DIPS personnel reviewed this procedure and told the Agency that the problem was corrected. However, the problem was not corrected until after September 30, 1981, and as a result, site-related compensation incurred during fiscal 1981, was understated.

References: (Continued)

b. The Economic and Policy Analysis Branch of the Office of Planning and Evaluation failed to properly enter data on the reverse side of the timecards. As a result, payroll costs were understated by $2,250. However, discussions with the employee disclosed that he worked on other activities. Approximately 80 percent rather than 100 percent of his compensation should have been recorded to Superfund. Consequently, Superfund was understated by approximately $1,575 for this office.

c. The Financial Management Division recorded to Superfund personnel compensation totalling $4,908 which it later decided was inappropriate. FMD submitted EPA Form 2550-6, "Redistribution of Payroll Charges," to reverse the charges. We found that the reversing entry was recorded twice. Consequently, personnel compensation for Superfund was understated $4,027 and fringe benefits $330.

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Exhibit E

Hazardous Substance Response Trust Fund
Schedule of Transportation of Persons and Things

Audit Area	Total Obligations	Obligations Accepted	Obligations Questioned	References
Region 1	$ 16,450	$ 16,450	$	
Region 2	18,969	11,069	7,900	Note 1
Region 3	13,476	10,867	2,609	Note 2
Region 4	24,871	24,871		
Region 5	15,475	15,475		
Region 6	26,180	26,180		
Region 8	7,276	7,276		
Region 9	17,477	17,477		
Region 10	3,771	3,771		
Lab.—Cincinnati	64,934	64,934		
Headquarters	103,592	103,592		
Total	$312,471	$301,962	$10,509	

References:

Note 1: Obligations were made against the Superfund appropriation for motor pool charges which were not supported by adequate documentation.

Note 2: The questioned travel costs in this regional office resulted from six trips which did not appear to be related to the CERCLA program ($1,799) and from accounting errors made by the finance office ($810).

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Exhibit F

Hazardous Substance Response Trust Fund
Schedule of Rent, Communication, and Utilities

Audit Area	Total Obligations	Obligations Accepted	Obligations Questioned	Obligations Set Aside	References
Region 2	$ 20,916	$ 9,916	$	$ 11,000	Note 1
Region 5	3,694	3,694			
Region 6	19,000			19,000	Note 2
Region 7	4,750	4,750			
Lab.—Cincinnati	21,209	664	20,545		Note 3
Headquarters	600,621	621		600,000	Note 4
Total	$670,190	$19,645	$20,545	$630,000	

References:

Note 1: Telephone costs of $11,000 were set aside because the cost allocation plan for telephone expenses was not distributed equitably. To ensure that indirect costs allocated to a program are fair and reasonable, the Agency needs to accumulate the actual costs incurred, identify and document the base which best measures the relative degree of benefit each program receives, and compute each program's share of actual costs using the identified and documented base.

Note 2: Telephone costs were set aside because allocation was based on estimated telephone use. No supporting documentation was prepared to show that the allocation was fair and reasonable. Indirect costs need to be allocated by means of a documented base which best measures the relative degree of benefit.

Note 3: We have questioned $20,545 in obligations consisting of $15,927 for chargeback support services (rental of space) and $4,618 for utility services at Edison, New Jersey.

The procedures used by the Cincinnati FMO to allocate EPA Headquarters support services to EPA activities in Cincinnati were not equitable. As a result, the allocation of support services to Superfund was overstated by $15,927. During the fiscal 1981 zero base budgeting (ZBB) review and ranking process, the decision was made to charge EPA programs for $3 million of Agency support budget costs. EPA Headquarters was assessed the largest portion of the total, while EPA field activities received proportionate shares.

References: (Continued)

Cincinnati's assessment was $210,000. This assessment was internally allocated to programs by the Cincinnati FMO on the basis of workyears--the ratio of total workyears within the individual program to total workyears of all programs. Annual and monthly internal assessments were revised quarterly. The only charge to a Superfund fixed account number for this assessment appeared in the fourth quarter of fiscal 1981.

MERL had 31.6 percent of the total workyears for Cincinnati activities during the fourth quarter. On this basis, MERL was assessed $66,360 (31.6 percent of the total $210,000 chargeback). MERL, in turn, allocated $16,590 to Superfund for the fourth quarter ($66,360 / 12 = $5,530 x 3 months), or 100 percent of its chargeback for the fourth quarter. However, our review showed that MERL charged only one percent of its total workyears to Superfund. By using the workyears allocation base, the current chargeback obligation against Superfund should have been $664 computed as follows:

Total Chargeback Assessment	$210,000
X MERL's Percentage of Total Workyears	.316
Chargeback Assessed to MERL	$ 66,360
X Percentage of MERL Workyears Charged to Superfund	.01
Annual Chargeback Allocable to Superfund	$ 664

As a result, Superfund was overcharged $15,927 ($16,591 - $664). We have questioned the $15,927.

Costs were obligated against Superfund for purposes unrelated to CERCLA activities. This involved an obligation for utility costs at the Edison, New Jersey, laboratory. An amount of $4,618 was originally obligated and disbursed under an apparently correct appropriation. However, it subsequently was changed by a journal entry and charged against the Superfund appropriation. Cincinnati FMO officials could not provide justification for this obligation to Superfund. The Edison, New Jersey, officials had no knowledge of the journal entry changing the original obligation. Accordingly, we have questioned the $4,618 as a charge to Superfund.

References: (Continued)

Note 4: The $600,000 set aside represented the amount allocated to the CERCLA program at Headquarters for rent. Agency officials told us that the program's share was estimated using the total Agency budget and the Superfund budget.

The Agency lacked support that the allocation to Superfund was fair and reasonable. Neither the allocation plan determining the program's share nor the computation determining the $600,000 amount was available for our review. In addition, the amount allocated generally should not be based on budget figures. Actual costs should be allocated by means of a documented base which best measures the relative degree of benefit.

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Exhibit G

Hazardous Substance Response Trust Fund
Schedule of Other Contractual Services

Audit Area	Total Obligations	Obligations Accepted	Obligations Questioned	References
Region 1	$ 5,171	$ 5,171	$	
Region 2	13,891	13,891		
Region 4	717	717		
Region 5	24,349	13,249	11,100	Note 1
Region 6	150	150		
Region 7	200	200		
Region 9	484	484		
Region 10	3,000	3,000		
Lab—Cincinnati	16,132	4,797	11,335	Note 2
Lab—Research Triangle Park	7,460	7,460		Note 3
Headquarters	37,272	37,272		
Total	$108,826	$86,391	$22,435	

References:

Note 1: We have questioned obligations of $11,100 for contractual services not related to CERCLA activities. These obligations consisted of $10,200 for a portion of a special utility cost for the Central Regional Laboratory and $900 for refurbishing office furniture. The special utilities were for the operation of the heating, cooling and ventilation systems at the Central Regional Laboratory during the second shift (5:00 p.m. to midnight).

According to the unit chief responsible for fund control, the work was not related to Superfund activities, and the allocation of any portion of the special utility charges was not correct. Apparently, the notation on the obligation document distributing a portion of the cost to a Superfund account was added after it was reviewed by the budget chief.

The obligation of $900 related to the cost of refurbishing nine desks. The nine desks were a part of 40 refurbished for CERCLA staff at a cost of $4,000 ($100 per desk). We found that five desks were located at the Office of the Inspector General, Northern Division, and four desks could not be found. Since it did not appear that the nine desks were being used for CERCLA activities, the $900 was questioned as a charge to Superfund.

References: (Continued)

Note 2: We have questioned $11,335 which represents an obligation for a contract to close out three pump stations and remove all exposed force main and electrical conduit. Cincinnati program officials agreed that this contract had nothing to do with CERCLA. The charge was made to Superfund to offset other expenses incurred on CERCLA activities but not recovered by the MERL. Accordingly, we questioned the $11,335 as a charge against Superfund. As of September 30, 1981, no funds had been disbursed for this item.

Note 3: These costs were for a general purpose contract to perform quality control tasks which are primarily related to flow measurement. The contract was let by EMSL.

Although we have not taken exception to the contract at this time, the contract's scope of work is so general that it could be used to perform services for programs other than CERCLA.

The Office of the Inspector General will closely review this contract and any other general purpose contracts charged to Superfund for indications of use by other programs. We will question any costs not directly related to CERCLA.

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Exhibit H

Hazardous Substance Response Trust Fund
Schedule of Equipment, Supplies, and Materials

Audit Area	Total Obligations	Obligations Accepted	Obligations Questioned	References
Region 1	$ 45,220	$ 45,220	$	
Region 2	155,971	155,971		
Region 3	88,023	46,823	41,200	Note 1
Region 4	126,956	126,956		
Region 5	61,499	16,645	44,854	Note 2
Region 6	112,748	93,960	18,788	Note 3
Region 7	9,714	9,714		
Region 8	21,954	21,954		
Region 9	35,742	35,742		
Region 10	11,171	11,171		
Lab--Cincinnati	242,028	242,028		
Headquarters	1,980,469	1,959,886	20,583	Note 4
Total	$2,891,495	$2,766,070	$125,425	

References:

Note 1: Equipment purchased with Superfund money was not being adequately accounted for and controlled. In addition, the Superfund appropriation was charged for general purpose equipment. The items in question were a photocopier costing $40,000 and a video cassette recorder valued at $1,200. Use of both pieces of equipment were not restricted to the CERCLA program, but appeared to be for general use of the Region.

Note 2: We have questioned $44,854 charged to Superfund. This figure is composed of $12,642 for supplies and materials and $32,212 for equipment.

Supplies and materials ($12,642)

a. There was $10,217 charged by the Central Regional Laboratory for tubing to hook up equipment ($1,912); expendable testing supplies ($4,221); and materials to modify analytical equipment ($4,084). The laboratory's major responsibility was to provide analytical and technical support to various EPA regional offices. However, records were not maintained to show the utilization of

References: (Continued)

supplies and materials by the different programs. The costs for supplies and materials were charged to different program accounts based on management's estimate of the workload and budget resources available. Costs need to be allocated by means of a documented base which best measures the relative degree of benefit received.

b. A $2,400 charge to Superfund for xerox paper represented a share of a large single purchase for the Region; the distribution was based on a workload estimate. However, records to support the distribution were not available. Consequently, we have questioned the obligation as a charge to Superfund.

c. An erroneous obligation of $25 for supplies and materials was made as a result of a duplicate payment.

Equipment ($32,212)

We have questioned $32,212 of equipment obligations because documentation was not available to show that the benefits derived by CERCLA were in proportion to the costs obligated. An explanation for each item questioned can be found in the paragraphs noted next to the item in the schedule below.

Description	Amount Questioned	Note
Word Processors	$13,102	d.
ADP Terminals	5,874	e.
Gas Chromatograph	9,210	f.
Office Furniture	3,086	g.
Untimely Obligation	940	h.
Total	$32,212	

d. Word Processors

Superfund was charged $15,800 as its share of the total cost paid to purchase six Lexitron word processors. The units, which were initially leased, were purchased outright in September 1981. Although none of these six units was specifically designated for Superfund, one unit was used to replace an older Lexitron transferred from the Surveillance and Analysis Division to the Office of Superfund. The replacement Lexitron included additional communication capabilities and cost $8,098. The unit transferred to the Office of Superfund was also purchased outright in September 1981 for $2,698. This cost was charged to a management account instead of Superfund.

References: (Continued)

We were informed that the $15,800 charged to Superfund was not related to the cost for any specific Lexitron, but rather was an estimate based on usage. However, documentation was not available to support the estimate. Based on available documentation, it is our opinion that the only amount allocable to Superfund was the cost of $2,698 for the Lexitron unit at the Office of Superfund. As a result, we have questioned net obligations of $13,102 ($15,800 - $2,698).

e. ADP Terminals

Total costs of $5,874 for the purchase of two data processing terminals were charged to Superfund. However, it did not appear that the equipment was used for CERCLA activities. Both terminals were located at Region 5's central administrative office and were used for general purposes. Two different terminals were actually located at the Office of Superfund and were used exclusively by CERCLA personnel. CERCLA's units were purchased in 1978 and were made available at no additional cost. As a result, we concluded that CERCLA did not benefit from the expenditure in proportion to the costs charged.

f. Gas Chromatograph

The Central Regional Laboratory charged Superfund $9,210 for a gas chromatograph. The laboratory's major responsibility was to provide analytical and technical support to the various EPA regional offices. However, records were not maintained to show the utilization of equipment by the different programs. Although the specially equipped chromatograph was charged 100 percent to Superfund, we were informed that it would also be used for other programs.

g. Office Furniture

Costs of $3,086 were for the purchase of ten desks and chairs. The ten desks and chairs were initially leased for the Waste Management Branch for a period of six months and subsequently purchased in July 1981. CERCLA personnel had no knowledge of the purchase, and we could not locate the items.

References: (Continued)

h. Untimely Obligation

The untimely obligation occurred when a fiscal 1981 account number was used for a purchase order made in fiscal 1982. The account number was assigned to the purchase requisition for packing trunks in late September 1981. The requisition was not processed and the corresponding purchase order was not authorized until October 5, 1981. The account number was never changed, and the order was entered into the accounting system as a fiscal 1981 obligation. Consequently, fiscal 1981 costs were overstated by $940 because of the untimely obligation. It appeared that this error occurred because of an administrative oversight.

Note 3: The cost of the following items were questioned because they were for the general support of all regional activities rather than primarily for CERCLA activities:

Description	Division	Quantity	Costs
Desk Organizer	Management	5	$ 500
Swivel Chairs	Management	6	1,587
Conference Chairs	Management	4	728
Calculators	Management	4	1,301
Caramate 3300 Front and Rear Projection, Record, and Playback	Management	3	1,129
Portable AM/FM Stereo/ Cassette Recorder	Management	6	636
VT-100-AA, Computer Terminal	Enforcement	1	1,300
Decwriter III	Enforcement	1	2,850
5-Drawer Letter Cabinet	Management	1	223
Tool Set & Miscellaneous Tools	Management	1	1,388
Selectric III Typewriter	Management	1	880
Decwriter III	Surveillance & Analysis	1	2,850
Xerox Copier	Management	1	3,416
Total			$18,788

References: (Continued)

Note 4: We found that three allowance holders obligated a total of $20,583 for equipment that was not directly related to CERCLA activities. These items are detailed below:

Allowance Holder Title	Description	Amount
Office of Monitoring Systems and Quality Assurance	Selectric Typewriter and Elements	$ 3,726
	Drawers and Folding Stands	190
Office of Environmental Processes and Effects Research	Recorder-Integrator Checker	169
	Loemeter	50
	Microsoft 16K Ram Card	159
	Linksampler	50
	Kleen Line Suppressor/Filter	30
	Language Reference Manual	20
	Operating System Reference Manual	25
	Apple Writer	75
	Statpro B	150
	Statpro C	150
	Pump Head	765
	Quantum Sensor	520
	Solumeter Controller	346
	Screw-in Type E.C. Cell	456
	PHO Circulating Pump	76
	Float Valve	24
	Unit Heater	1,050
	Acid and Pump	299
	Viton Diaphram	45
	Pump	33
	Freight	25
Office of Health and Environmental Assessment	Chairs	252
	Desk	328
	Filing Cabinets	628
	Partitions	342
	Computer Equipment including Software; Controller and Telecommunications Station	10,600 (partial purchase)
	Total	$20,583

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Exhibit I

Hazardous Substance Response Trust Fund
Schedule of Interagency Agreements

Federal Agency	Total Obligations (Note 1)	Obligations Accepted (Note 2)	Reference
Internal Revenue Service	$ 200,000	$ 200,000	
National Oceanic and Atmospheric Administration	215,000	215,000	
Corps of Engineers	248,500	248,500	
Department of Commerce, Bureau of National Standards	108,000	108,000	
Department of Energy	47,000	47,000	
Department of Transportation	120,000	120,000	
U.S. Coast Guard (Training)	50,000	50,000	
U.S. Coast Guard	6,742,875	6,742,875	Schedule I-1
Total	$7,731,375	$7,731,375	

Note 1: EPA's interagency agreements are administered and controlled by the Financial Management Office located in Cincinnati, Ohio. The major portion of the expenditures to the Superfund appropriation were for cleanup actions of various hazardous waste sites performed by the U.S. Coast Guard (USCG).

Expenditures by site under the USCG agreement are provided in Schedule I-1.

Note 2: These amounts were accepted only to the extent that valid obligation and disbursement records were maintained at the Cincinnati FMO. Final audits, at a later date, of each agreement may disclose questioned costs.

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Schedule I-1

Hazardous Substance Response Trust Fund
Schedule of Amounts Obligated and Disbursed by
Site under the Interagency Agreement
with the U.S. Coast Guard

Location	State	Site No.	Obligations Recorded & Accepted (Note 1)	Reference
Picillo Site	RI	01100045	$ 240,980	
Gilson Road	NH	01100073	23,073	
Montollo Site	NH	01100056	97,299	
Burrillville	RI	01100031	31,255	
Ottati - Goss	NH	01100011	393,000	
Keefe Environmental Service	NH	01110018	146,000	
Lipari Landfill	NE	03100020	100,000	
Old York Oil Co.	NY	03110002	86,667	
Goose Farm	NJ	03110005	1,000,000	
Kin-Buc	NJ	03100034	435,000	
Black Creek	NY	09200037	43,333	
Pollution Abatement Service	NJ	09170086	218,388	
Grigco Facility	MD	05190071	246,500	
Dracup Warehouse	PA	03200070	170,462	
McAllister Site	AL	08110057	50,138	
Mobray Engineering	AL	08110065	49,800	
Seymour Recycling	IN	02100027	886,500	
Cordova Chemical	MI	09210009	266,666	
Laskin/Poplar	OH	09200105	334,929	
Summit National Liquid Service	OH	09200105	9,308	
French Limited	TX	08100036	314,968	
Motco Disposal	TX	11100020	335	
Stringfellow	CA	11100020	74,047	
			$5,218,648	
Not Assigned to Sites			1,524,227	Note 2
Total Obligations			$6,742,875	

References:

Note 1: These amounts were accepted only to the extent that valid obligation and disbursement records were maintained at the Cincinnati FMO. Final audits, at a later date, of each of the contracts awarded by the USCG under the interagency agreement may disclose questioned costs.

Note 2: EPA entered into an interagency agreement on April 21, 1981, for $6,742,875 with the USCG. During fiscal 1981, EPA disbursed $5,218,648 under the agreement. The balance of $1,524,227 ($6,742,875 - $5,218,648) remains an unliquidated obligation. Amounts were not obligated by site until invoices were received and approved for payment.

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Exhibit J

Hazardous Substance Response Trust Fund
Schedule of Contracts

Cost Category	Obligations (Note 1)	Obligations Accepted (Note 2)	Obligations Questioned	References
Contracts (Other than Emergency Response Contracts)	$19,924,281	$19,774,281	$150,000	Notes 3 & 4
Emergency Response Contracts:				
Region 1	400,000	400,000		
Region 2	657,000	657,000		
Region 3	50,000	50,000		
Region 4	562,000	522,000	40,000	Note 5
Region 5	92,000	92,000		
Region 6	240,000	240,000		
Region 8	6,313	6,313		
Region 9	1,300,000	1,300,000		
Total	$23,231,594	$23,041,594	$190,000	

References:

Note 1: The contracts for the CERCLA program are administered and paid by the FMOs located in Cincinnati, Ohio, and Research Triangle Park, North Carolina.

The contracts reviewed fell into three general categories:

a. research and development (R&D) contracts which provide for R&D work, including basic and applied research and development related to CERCLA activity;

b. program contracts which provide for support services ranging from laboratory testing and analyses to computer hardware and software services; and

c. emergency response contracts which provide for services for the cleanup of hazardous waste spills or sites.

References: (Continued)

Note 2: These amounts were accepted only to the extent that valid obligation and disbursement records were maintained. Final contract audits, performed at a later date, may disclose questioned costs.

Note 3: We have questioned costs of $150,000 where the funds were escrowed under a general purpose R&D contract to avoid returning them to Headquarters at the end of the fiscal year. The contract was originally funded to provide quality assurance and technical support for the State, Local Air Monitoring System. The Superfund money was added to the contract under the limitation-of-funds clause to cover the contractor's performance for the contract period ending December 30, 1981 (first quarter of fiscal 1982). Based on the statements of EMSL personnel, it was apparent that the extramural costs were not reasonably necessary for the implementation of CERCLA and, as such, were not chargeable to Superfund.

Note 4: It is important to note that many of the program contracts were funded using several other appropriations, in addition to the Superfund appropriation. Because of multiappropriation funding, there will be a need to identify CERCLA work as it is performed and billed under these contracts. These contracts will be reviewed again in the near future; costs charged to the Superfund appropriation will be questioned unless they can be specifically identified to CERCLA activities.

Note 5: A contract was issued in error for work to be performed at the Valley of the Drums hazardous waste site in Louisville, Kentucky. It was discovered after issuance that the contract number was assigned to another contract. In an attempt to correct this mistake, another contract and contract number was issued. However, instead of making an administrative change to correct the contract number, the documentation was processed as a new obligation. Thus, obligations for this site were overstated by $40,000.

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Schedule J-1

Emergency Response Contracts

Region	Site No.	Hazardous Waste Site	Total Site Obligations	Reference
1	01	Picillo, Coventry, R.I.	$ 360,000	
	02	Sylvester Gil Road, Nashua, N.H.	40,000	
2	04	Kin-Buc Landfill, Edison, N.J.	557,000	
	06	Pollution Abatement Service, Oswego, N.Y.	100,000	
3	03	Bruin Lagoon, Bruin, Pa.	50,000	
4	03	Valley of the Drums, Louisville, Ky.	412,000	Note 1
	28	Dreyfus Street, Columbia, S.C.	150,000	
5	03	Laskin-Poplar Oil Co., Jefferson, Oh.	70,000	
	07	Detroit Barrels (midnight dumping) MacComb, Oakland and Wayne Counties, Mi.	22,000	
6	17	Crystal Chemical, Houston, Tx.	240,000	
8	02	Arlington, Wy.	6,313	
9	02	Santa Fe Springs, Ca.	1,300,000	
Total--Emergency Response Contracts			$3,307,313	

Reference:

Note 1: An administrative error caused one contract to be obligated twice. This resulted in an overobligation in the amount of $40,000. This amount was questioned (see Exhibit J).

Attachment I

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

MAR 30 1982

MEMORANDUM

THE ADMINISTRATOR

SUBJECT: Interim Report of Audit of the Environmental Protection Agency's Portion of the Hazardous Substance Response Trust Fund, Audit Report E5bH2-11-0012

FROM: Anne M. Gorsuch
Administrator (A-100)

TO: Matthew N. Novick
Inspector General (A-109)

I have completed the review of the interim audit of EPA's portion of the Hazardous Substance Response Trust Fund and my staff's analysis of your findings and recommendations. They inform me that, on the whole, the report is fair and accurate. I was particularly gratified to learn of the report's positive findings concerning our accounting for the extramural expenditures which comprise 84 percent of the $40.1 million of Superfund obligations.

I am also pleased to note that our Financial Management System was not found to be inadequate by the audit. The system, with proper input, will accurately reflect Superfund expenditures. I also note that the recommendations made in the audit report dealt exclusively with correcting, modifying and documenting inputs into the system.

Many of the audit findings have already been discovered by EPA staff and some of the corrective actions have been initiated. In addition, many of the recommendations that are now addressed to a proposed task force were initially and, I believe, more appropriately directed in a previous draft audit report on headquarters Superfund charges to the Office of Administration, which has initiated additional action.

Given these facts, I do not feel that the creation of a formal task force would facilitate the implementation of the remaining recommendations. Comments as to the specific recommendations of the audit report are discussed below.

Audit Recommendations:

Page 8 and 9, Recommendations 1 and 2.

1. The Administrator establish a task force headed by a senior Agency official, such as the Associate Administrator for Policy and Resource Management (PRM), to oversee and coordinate the development of Agency-wide guidance on accounting for Superfund costs.

2. The task force take all necessary actions, including those recommended in subsequent findings of this report, to ensure uniform Agency-wide accounting policies and procedures are implemented.

EPA Response:

These recommendations resulted from the Inspector General's (IG) findings that there was no agencywide guidance that fully detailed the procedures or documentation necessary to make proper charges to Superfund. Most of the recommended actions are already being undertaken at the Agency. Therefore, I believe, the creation of a special task force is unnecessary.

Audit Recommendtions:

Page 12 and 13, Recommendations 1 thru 5.

1. Take necessary actions to:

   a. develop a time distribution form which employees must use to distribute actual time worked among two or more accounts;

   b. revise Chapter 7 of the Timekeeping Manual to require that the above form, completed by employees and approved by their supervisor, document time distributed on T&A Reports between any accounts, including but not limited to Superfund accounts; and

   c. inform the applicable program offices and support organizations that only salary costs supported by timesheets can be charged to Superfund and that salary costs not supported by timesheets will be questioned in future audits.

2. Require that:

   a. employees who did not maintain time distribution records, but charged salary costs to Superfund, prepare a written certification of the percentage of time they performed CERCLA work;

b. the Division Director of such employees approve the above certifications; and

c. the personnel compensation obligated for Superfund be adjusted as necessary to reflect the effect of the above certification.

3. Draft and issue guidance requiring that timesheets be prepared and maintained by all personnel who work on CERCLA activities.

4. Draft and issue guidance stating that offices with CERCLA responsibilities can charge Superfund salary costs to their normal operating appropriation only when their Superfund payroll budget is exhausted. They should emphasize also that any cost that can be attributed to a specific site must be charged to Superfund in order for EPA to recover all direct cost from responsible parties.

5. Issue a directive to all allowance holders, reminding them of their responsibilities to control funds, including the reconciliation of financial management reports to supplementary records.

EPA Response:

The auditors found that much of the time charged to Superfund in FY 1981 was not documented by timesheets or other methods, that some time charged was in fact spent on non-Superfund tasks, and that some time that was spent on Superfund tasks was charged to other appropriations.

Some offices in the Agency have already initiated Superfund timekeeping procedures, and we are building on this effort. The Agency has recently developed a new time distribution policy which will be formalized and submitted to you next week. Subsequent to your review, the Agency will issue the policy and revise Chapter 7 of the Timekeepers Manual. A statement of this policy will also be included in appropriate allowances sent to all EPA offices. Where feasible, the proposed time distribution policy will be consistent with Recommendation 4. The proposed policy will not require documentation of charges to non-Superfund accounts. No other program in the agency requies that level of substantiation. We deem it inefficient to spend precious time building an audit trail that will never be used.

Recommendation 2 appears to be a satisfactory method of substantiating FY 1981 charges that did occur, and will be implemented where legally and technically feasible. It should be noted, however, that it makes no allowance for charging FY 1981 for work performed on Superfund that was not previously charged. One problem with Recommendation 4 is that if an office had site-specific and non site-specific functions and not enough Superfund

payroll to cover both, strict application of this recommendation could result in exhaustion of Superfund payroll costs on non site-specific efforts if they occurred before the site-specific work. This would leave only normal operating funds to cover the site-specific work.

Audit Recommendations:

Page 15, Recommendations 1 and 2:

1. The Assistant Administrator for Administration reduce Superfund obligations by $20,545 and, transfer these costs to the proper operating appropration.

2. The task force prepare an equitable cost allocation plan for rent, communication and utilities; and, then adjust the Superfund obligations as necessary to reflect the CERCLA program's share of fiscal year 1981, support service costs. Unless such an allocation plan is prepared, Superfund obligations should be reduced by the $630,000 of unsupported charges.

EPA Response:

The auditors found two situations that caused these recommendations. First, support costs were charged based on budgeted amounts or estimates. Second, costs that were inappropriate to Superfund were charged to Superfund accounts. Recommendation I corrects these latter charges and will be implemented, where legally and technically feasible. Recommendation 2 requires that an allocation plan be prepared to substantiate actual FY 1981 and future costs. Initial efforts to prepare this plan have begun in the Office of Administration. Where legally and technically feasible, the plan will be used to make adjustments to FY 1981 and actual charges for FY 1982.

Audit Recommendations:

Page 16, Recommendations 1 and 2:

1. The Assistant Administrator for Administration reduce Superfund obligations by $125,425 and, transfer these costs to the proper operating appropriation.

2. The task force:

   a. establish procedures to ensure that Superfund is charged in proportion to the benefits received when a item purchased can benefit more than one objective. Such procedures might include the maintenance of equipment utilization records or the development of fee schedules for laboratory services; and

b. develop and implement policy and guidelines to ensure that future acquisitions have a direct connection to or are essential for carrying out the stated general purpose for which funds are appropriated. Procedures could include a Headquarters prior approval requirement for certain items (camera, video cassette records, photocopy machines), and items with a unit price in excess of a set financial limit.

EPA Response:

These recommendations resulted from findings that some offices have charged Superfund for the full purchase cost of certain equipment and supplies that were only partially, or were not, used for Superfund (or where Superfund use was undeterminable).

Discussions with the relevant offices will be held by the Office of Administration to determine the technical and legal feasibility of implementing Recommendation 1. Portions of recommendation 2 have already been implemented. For example, the Assistant Administrator for Administration is currently signing off on all agency equipment purchases in excess of $5,000. In addition, we are reviewing alternative methods of documenting purchases made with Superfund money. One method being reviewed was recently implemented by the Office of Administration for internal use. It established approval levels and requires the written justification of the use of Superfund monies.

Audit Recommendations:

Page 17, Recommendations 1 and 2:

1. The Assistant Administrator for Administration deobligate EMSL and MERL contract costs that were inappropriately charged to Superfund, and transfer the costs to the proper appropriation.

2. The task force issue a directive to all CERCLA program offices and support offices with CERCLA responsibilities, limiting Superfund obligations to only those items which were necessary for and incidental to CERCLA activities.

EPA Response:

The auditors contend that two contracts were inappropriately charged to Superfund accounts. If the auditors' contention is true, which we will seek to determine, then 1 should be implemented by the Office of Research and Development. We will address Recommendation 2 as part of our review of alternatives to document Superfund purchases.

Audit Recommendation:

Page 19, Recommendation:

We recommend that PCMD take appropriate actions to definitize existing contracts and ensure future contracts are definitized in a timely manner.

EPA Response:

During FY 1981 and even now, in each emergency response in which EPA becomes involved, where contractor support is needed immediately, such support is obtained under an emergency contracting procedure called a "Notice to Proceed with Emergency Response to Hazardous Substance Release". This procedure allows a contractor to start work and spend up to $50,000 per site. The Notice to Proceed must be definitized, i.e., replaced with a negotiated contract, within 30 days unless properly extended. As of January, when all of the notices issued in FY 1981 were at least 124 days old, none had been definitized.

While all of the notices have been properly extended, it is in the agency's best interest to definitize these contracts as early as possible. In the short run, the Office of Administration has redirected its Superfund contracts personnel to address this problem. Progress is being made. For the long run, the Agency is now in the process of awarding a national contract to cover emergency responses so that the Notice to Proceed procedure may be eliminated.

Audit Recommendation:

Page 20, Recommendations 1 and 2:

1. Develop and implement guidance to establish and maintain some means by which CERCLA property can be uniquely identified through the Agency's property managment system.

2. Promulgate and implement policies and procedures specifically governing the acquisition, use, and disposition of CERCLA property, including a requirement that Superfund be credited with the residual value of CERCLA property transferred to another program.

EPA Response:

These recommendations resulted from an audit of all agency property since Superfund property could not be separately identified and subjected to audit. While the recommendations appear reasonable, the Agency needs to examine the legal and technical feasibility of implementing these changes.

Page 22, Recommendations 1 thru 4:

We recommend that the Assistant Administrator for Administration:

1. Issue guidance to inform OSC's of the need to process contractor invoices in a timely manner so the Agency can take advantage of discounts offered for prompt payment.

2. Consider changing current procedures to allow payments based solely on the contractors certification, if EPA is unable to consistently take advantage of discounts offered for prompt payment.

3. Emphasize to the Financial Management Offices the importance of expediting the processing of invoices in instances where discounts are offered for prompt payment.

4. Instruct the Financial Management Offices to use general ledger account number 601.8, Discounts Lost, to record discounts offered but not taken on vendor's invoices.

EPA Response:

The auditors found that invoices were not being paid promptly enough to allow paying offices to take prompt payment discounts offered by Superfund emergency response contractors. They cited a requirement that the on-scene coordinator approve and certify contractor invoices before payment is made as one factor that prevents payment from occurring promptly. Recommendation 2 suggests that this requirement be dropped if the process cannot be otherwise speeded up through recommendations 1 and 3. I do not accept recommendation 2 because it is not a good business practice. The Agency has recently implemented the project officer certification process on all contracts and grants after finding that one grantee, because no one had to certify the appropriateness of his invoices, had drawn the entire balance from his letter of credit long before he completed work or expended funds on the grant. Seven to eight years ago, EPA abandoned project officer invoice certification over this same issue on the grounds that interim audits would be regularly performed. These have not been done on a timely basis and it is often years before final audits are completed. In lieu of prompt interim audits, the most appropriate defense against this type of abuse is project officer invoice certification.

Audit Recommendation:

Page 23, Recommendation:

We recommend that the Assistant Administrator for Administration inform all EPA offices of the limitations OMB Policy Letter 81-1 placed on fourth quarter procurements, hurry-up, or unnecessary end-of-year procurements.

EPA Response:

This recommendation resulted from a finding that Region IX and X were allowed to spend headquarters funds late in the fiscal year. The Agency has internal procedures that meet the requirements set forth in OMB policy letter 81-1. The Superfund program is funded through a no year appropriation, with all funds available until expended. Additionally, Congressional and OMB restrictions on fourth quarter expenditures did not pertain to this program in 1981. As the Agency did not have authorization to obligate Superfund dollars until the final quarter of Fiscal Year 1981, I do not concur with the presumption that these expenditures were conducted in a hurry-up fashion.