

*Review of Region 1 Accounts Receivable Process*  
*January 2001*

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# **SUPERFUND PROGRAM REVIEW**

## **Accounts Receivable Process**

### **Region 1**

### **Joint OECA/OCFO/OIG Review**

**Review # 2001-S-3**

**January 2001**

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

JAN 19 2001

**MEMORANDUM**

SUBJECT: Superfund: Joint OECA/OCFO/OIG Review  
Region 1 Final Report on Superfund Accounts Receivable Management

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The purpose of this memorandum is to transmit our attached "Superfund: Regional Accounts Receivable Management Practices" Region 1 final report. As you know, a headquarters team from the Office of Enforcement and Compliance Assurance (OECA), the Office of the Chief Financial Officer (OCFO), and the Office of Inspector General (OIG) jointly conducted the review in your region. This final report incorporates comments received from your staff. It cites several areas where the region could improve their Superfund accounts receivable process and also includes recommendations to address areas needing improvement.

We thank you for your time and attention during our visit and your comments and actions taken as a result of this review. Should you or your staff have any further questions or concerns about this report, please contact Bruce Pumphrey on 202-564-6076.

Attachment

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Bruce Gelber, DOJ

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## **CHAPTER 1**

### **INTRODUCTION**

The report summarizes the results of the program evaluation of procedures for managing Superfund accounts receivable from establishment through collection. Emphasis for the evaluation focused on tracking and collecting overdue accounts receivable. This review highlights the importance that the Agency, as well as the Department of Justice (DOJ), places on the management of its Superfund accounts receivable, and the many related issues challenging both Headquarters and Regional offices.

The evaluation was conducted as a joint, cooperative effort involving three separate EPA offices: the Office of Enforcement and Compliance Assurance's Office of Site Remediation Enforcement (OSRE), the Office of the Chief Financial Officer's Financial Management Division (FMD), and the Office of Inspector General (OIG). This review was not conducted as an audit. The team welcomed the informal interaction and communication with the regional management and staff. The results of this evaluation will benefit the EPA Superfund and financial management programs by: 1) highlighting the issues raised by representative Headquarters and Regional EPA managers and staff; 2) reinforcing positive existing practices; and 3) proposing recommendations for improving future accounts receivable collection activities.

### **BACKGROUND**

In 1980, Congress established the Superfund program by passing the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and amended it in 1986 with the Superfund Amendments and Reauthorization Act (SARA.) The Superfund program provides Federal clean-up authority and funds to address problems posed by abandoned or uncontrolled hazardous waste sites. Under CERCLA, a Trust Fund (i.e., Hazardous Substance Superfund Trust Fund) was established to help finance the costs of cleaning up these sites. CERCLA also provides the President with authority to pursue potentially responsible parties (PRPs) to perform or pay for the study and clean up of Superfund sites.

Section 107 of CERCLA authorizes EPA to recover all Federal costs (including oversight) associated with cleaning up a Superfund site. This authority is instrumental in replenishing the Superfund Trust Fund and also provides incentives to Potentially Responsible Parties (PRPs) to perform the clean up themselves. Recovery is initiated through negotiation with or legal action against a Superfund PRP. DOJ works with EPA to recover these costs and also has responsibilities entering into cost recovery settlements on behalf of the United States, as well as enforcing and collecting debts arising from Superfund cost recovery actions.

Since the beginning of the Superfund program, EPA has obtained approximately \$4 billion in commitments/settlements from PRPs or court-ordered judgments against PRPs to reimburse the Agency for past costs, bills to pay oversight costs, fines, penalties and cash-out settlements for future response work. Of that amount, over \$2.8 billion has been collected and returned to the Superfund Trust Fund. Approximately \$200 million has been written off as uncollectible, primarily the result of judgements against insolvent parties. Approximately \$976 million remains uncollected, some of which has yet to come due.

## **PURPOSE**

The Agency is currently working on several initiatives to improve its fiscal management of the Superfund Enforcement Program. During 1998-1999, both OSRE and FMD made a concerted effort to achieve up-to-date billing for Superfund oversight costs. After improving the billing process, attention shifted to the collection of outstanding accounts receivable (i.e., cost recovery, fines and penalties, and cashouts) to return monies owed to the Federal government to the Superfund Trust Fund which resulted from these enforcement actions. For this collection initiative, several analyses of accounts receivable data have been completed.

At the time of the Region 1 review, in June 2000, our analysis of data from the EPA's Integrated Financial Management System (IFMS) indicated that nationally there was approximately \$526.8 million in total outstanding accounts receivable greater than 120 days delinquent. Of the \$526.8 million, EPA had collection responsibility for \$125.4 million and DOJ had collection responsibility for \$401.4 million. Of the \$526.8 million over 120 days delinquent, \$252 million was considered potentially collectible, \$206 million was under appeal at DOJ, and \$68.6 million was deemed doubtful for collection. Region 1 had approximately \$6.2 million (or 1% of the total) in outstanding accounts receivable of which \$4.5 million is at EPA for collection action and \$1.8 million is DOJ's collection responsibility. Of the \$6.2 million, \$5.1 million was considered potentially collectible, \$229.6K was under appeal at DOJ, and \$909.6K was deemed doubtful for collection.

Because of the important mission of the Superfund Program and the large amount of dollars involved in cost recovery, OSRE, FMD, and the OIG planned a joint review of EPA's management of the Superfund accounts receivable process. The objectives were to:

- identify accounts receivable management issues;
- identify best practices that facilitate the management and collection of outstanding Superfund receivables; and
- develop recommendations for improving and/or streamlining the process for better efficiency at EPA Headquarters, regions, and DOJ.



## **SCOPE AND METHODOLOGY**

The review team developed a methodology for conducting the review and concluded that the most effective approach for accomplishing the objectives was to conduct on-site reviews in several regions. The objectives were to:

- discuss and gain a better understanding of the Region's policies and procedures for managing Superfund accounts receivable and collections; and
- identify areas in the regional and national process that could be improved, including areas where Headquarters and DOJ should provide better guidance and support.

Regions 6, 5, and 1 were selected as the regional pilots. Region 1 was selected primarily based on the relatively small dollar amount of their delinquent accounts receivable in order to determine if the Region had any unique practices that may have contributed to the low delinquent receivable balance.

### **Interviews with Program, Superfund Legal and FMO Staff**

The team held a joint meeting with personnel within the Superfund Division (referred to herein as the Program Office (PO)), the Superfund Branch of the Office of Environmental Stewardship (Superfund Legal), and the Financial Management Office (FMO) to discuss the overall policies and procedures supporting the regional Superfund accounts receivable process. Prior to our visit, we provided the Region with a questionnaire which formed the basis of our discussions. The questionnaire was a global survey regarding the accounts receivable process with subjects ranging from establishing and recording accounts receivable, through billing and handling of overdue and uncollectible debts.

### **Site Specific Review of Selected Accounts Receivable**

To further facilitate the analysis of regional policy for handling accounts receivable, we selected a sample of overdue accounts receivable for site-specific review. Data in IFMS as of April 6, 2000, showed that Region 1 had 75 outstanding accounts receivable greater than 120 days delinquent totaling \$6.2 million. For the site-specific review, we selected 23 of the 75 overdue receivables totaling approximately \$3.4 million. These accounts receivable related to 16 sites. These sites were comprised of at least one receivable from each accounts receivable status code categories (See Attachment B-List of Status Codes) having large past due amounts and the age of the debt was also significantly overdue. A larger number of receivables in status code 08 (

i.e., Delinquent in Dunning Cycle) were selected because 12 of the Region's receivables were reported in that category. The age of the receivables reviewed ranged from 141 to 4281 days delinquent.

Our interviews were conducted with the staff responsible for tracking and collection follow up activities for that receivable, in most cases the Superfund Legal and FMO. Our expectations were to identify the reasons for the delinquency, actions taken by the Region to obtain payment or resolution, and any future efforts to be undertaken. In addition, we hoped to identify common problems across the range of delinquent receivables which could be addressed and improved through future EPA HQ, DOJ, and regional actions. The results of our review are discussed in Chapter 2. Attachment A contains a more detailed summary of each site.

#### **Reconciliation of Regional data in IFMS and DOJ Tracking Systems**

As part of this initiative, EPA is working with DOJ to reconcile all Superfund open accounts receivable (current and past due) that are currently reported in IFMS as being the DOJ's responsibility for collection. We compared the data recorded in IFMS identified as DOJ's collection responsibility with the data found in DOJ's tracking systems. The purpose of this reconciliation is to identify inconsistencies between the respective tracking systems, determine whether or not EPA referred amounts are consistent with those at DOJ and ensure that there is mutual understanding of each agency's respective collection responsibilities. In addition, DOJ has two offices (i.e., Executive Office of the United States Attorneys (EOUSA) and Nationwide Central Intake Facility) that process Superfund accounts receivable using two separate data systems. This fact made the reconciliation more lengthy and challenging and thus, the final reconciliation for Region 1 could not be completed prior to issuance of the report. However, some preliminary findings and recommendations resulting from the reconciliation are contained in this report.

Upon completion of the national reconciliation, we will present the results of the review to DOJ and work with them cooperatively to develop procedures for enhancing the tracking of Superfund receivables.

## CHAPTER 2

### REVIEW OF SUPERFUND ACCOUNTS RECEIVABLE PROCESS

The Region 1 Financial Management Office generally follows Agency policy and procedures provided in Chapter 14, *Superfund Accounts Receivable and Billings*, RMDS 2550D and Chapter 9, *Receivables and Billings*, RMDS 2540 when managing its Superfund accounts receivable. Although Chapter 14 specifically addresses the management of Superfund accounts receivable, this document cross-references those sections in Chapter 9 that are also applicable to Superfund.

During the Region 1 review, we determined that there are three primary offices in the Region that have a role in the accounts receivable process: the PO, Superfund Legal, and FMO. Each office has a distinct role in ensuring that: accounts receivable documentation is prepared and/or forwarded timely to the respective office; accounts receivable are properly recorded and tracked; changes in accounts receivable status are communicated between offices, including DOJ; and proper follow up actions for disputed and delinquent accounts receivable are discussed and initiated as required.

The Region maintains a Memorandum of Understanding (MOU) developed in October 1989 and a memorandum dated January 1993, establishing the roles and responsibilities for the PO and the FMO. The Superfund Legal is not specifically included in the MOU; however, the roles and responsibilities for them are defined in Volume I, Chapter 9 of the regional training manual and also in a memo dated August 1988. In addition to these documents, the FMO developed procedures for oversight billing dated October 1998. During our review, we found that the PO serves as the "middle man" or liaison to both the Superfund Legal and FMO on all accounts receivable issues.

Based on our discussions with each office, we determined that the roles and responsibilities in the regional Superfund accounts receivable process are as follows:

#### Office of Environmental Stewardship

- Forwards copies of all legal documents (e.g., CDs, judgments, and AOCs), and other supporting documents, that establish accounts receivable to the PO;
- Works and communicates with PO concerning changes in the status of accounts receivable (e.g., dispute resolution, bankruptcy, or other reasons);
- Follows up with delinquent debtors to determine the status of their payments;

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- Follows up with DOJ to determine the status of delinquent judicial debts;
- Follows up on bankruptcy cases and refers proof of claim to DOJ on behalf of EPA;
- Makes decisions concerning the referral of delinquent debts to DOJ for enforcement/collection; and
- Serves as a case site team member for settlement negotiations.

Program Office

- Forwards copies of all legal documents received from Superfund Legal establishing accounts receivable to FMO;
- Coordinates with Superfund Legal on accounts receivable issues as they arise;
- Prepares correspondence requesting the FMO to prepare bills for collection;
- Follows up with Superfund Legal with respect to delinquent debts;
- Extracts data from enforcement agreements and provides this information to the FMO for entry into IFMS;
- Advises FMO of any changes in the status of the debt or the debtor;
- Reviews and approves bills prepared by the FMO for future cost/oversight bills;
- Prepares transmittal letter for future cost/oversight bills;
- Reviews, reconciles, and approves cost recovery packages (i.e., cost and work performed documentation);
- Tracks all cases and related accounts receivable; and
- Serves as a case site team member and assists Superfund Legal with settlement negotiations.

Financial Management Office

- Records accounts receivable for amounts reflected in legal documents received from the PO within three workdays from receipt;
- Prepares final recovered SCORE\$ report and cost recovery packages for PO and Superfund Legal;
- Prepares and issues bills for collection in accordance with requests from PO;
- Records and tracks the status of accounts receivable using own regional data base;
- Advises PO and Superfund Legal of overdue receivables;
- Provides PO and Superfund Legal with monthly accounts receivable report concerning the status of amounts collected, amounts to be collected, and delinquencies;
- Performs reconciliation between regional accounts receivable data base records and IFMS data;
- Assigns and updates accounts receivable status codes;
- Researches unidentified payments that come in prior to receiving the source documents necessary to establish accounts receivable, and obtains source documents; and
- Forwards all collections to Headquarters for investment in the fund within 24 hours of receipt.

**Results of Site Specific Review of Selected Accounts Receivable**

As discussed in Chapter 1, we selected 23 accounts receivable for site-specific review. Prior to our visit, the region reviewed these sites and provided us with a status update. Although the outstanding amounts for five of the receivable sites had been collected, the remaining amount listed on the overdue report for these sites was determined to be unbilled interest. In addition, one site had been referred to the Department of Treasury for collection. The review team found that most issues identified during the site specific review were relatively minor, and with the

appropriate coordination and communication among the three offices could be easily resolved. (The site specific reviews are summarized in Attachment A.)

The following are some issues identified during our site specific review.

- Overlapping settlements on the site left the billing unclear. It was difficult to determine based on EPA's accounting in IFMS, the costs associated with each settlement. There was a single regional work assignment for multiple tasks which are addressed in each settlement which caused the problem and the resulting dispute. The Region is working to manually disaggregate the costs and assign them to each settlement. Once completed, Superfund Legal will then inform FMO to reissue a revised bill or the PRP will pay the old bill.
- One receivable was part of a large National bankruptcy case. HQ negotiated the settlement and the Region provided comments on the dollar amount. A portion of the original debt and the remainder was discharged as a judgment. However, the region is unsure if the funds were to be applied against the Region's open receivable. HQ and the region will work together to resolve this issue.
- These receivables consist of installment payments under the terms of five agreements. The PRP filed for Chapter 11 bankruptcy, reorganization. Although the region filed a proof of claim under the bankruptcy, Superfund Legal will not receive a discharge notice because of the type of bankruptcy. Thus, the receivable will remain open and collections made consistent with the final bankruptcy reorganization plan.
- At this site, an amount equal to the principal amount of the bill was paid in full, however, since the 1<sup>st</sup> and 2<sup>nd</sup> bills were paid late, the overdue amount is the late fee plus accrued compounded interest. However, due to accounting practices which require payments to be made first against interest and then against the principal, the amount outstanding in IFMS remains recorded in IFMS as unpaid principal. The region has requested that HQ provide a written writeoff policy specifically addressing de minimis amounts of unpaid interest prior to writing off the costs.

#### **Results of EPA DOJ Reconciliation**

EPA's initial review in April 2000 found 29 cases to be reconciled in both the EPA and the DOJ systems. Out of the 29 cases, 11 cases with outstanding balances totaled approximately \$3,500. Upon completion of a National writeoff policy, the region should close out these cases due to small balances. These balances could represent unpaid interest due to payment received late and interest accrued during that time frame. There were 3 cases in both the IFMS and DOJ

systems where the collection amounts and outstanding balances did not agree, 12 cases totaling \$14,946,891 that were in IFMS but not recorded in DOJ's systems, and 3 cases totaling \$278,641 that were recorded in DOJ's systems, but not in IFMS. This reconciliation is currently ongoing at the DOJ and we are awaiting the results of their review.

One significant finding came out of the reconciliation between the two systems. There is a common data link, the Superfund Site Spill ID number (SSID), that could allow EPA to positively match accounts receivable with DOJ information, however, this data has not always been entered into DOJ's systems. After discussions with DOJ, they now require that the SSID be entered for all cases in their systems, thus providing this important link.

## **MATTERS FOR CONSIDERATION**

Based on our review, we identified four general areas where actions could be taken in Region 1 which could improve the accounts receivable process and lead to increased collections. This report does not include formal recommendations because it is designed to provide information based on the results of an informal, cooperative exchange between the review team and the region. Therefore, the Region may want to consider some of the recommendations that are discussed below in managing Superfund accounts receivable.

### **I. Information Exchange/Timely and Accurate Recording of Superfund Accounts Receivables**

**Issue: Certain Superfund Accounts Receivable are not being recorded in a timely manner.**

The Agency does not record Superfund accounts receivable in its IFMS accounting system until legal liability has been proven/established in the form of a settlement agreement or judgment. Thus, delays in recording receivables could result in potential lost interest. In accordance with the current DOJ IAG, DOJ/ENRD will provide a copy of the cover page and signature page of entered consent decrees, or a copy of the court order indicating entry of the decree, to EPA's FMD within seven days of receipt. In an effort to improve the timeliness of recording accounts receivable for CDs, DOJ has begun advising EPA of entered CDs via electronic notification. DOJ notifies the FMOs and Superfund Legals weekly of entered CDs using their *EPA Debt Assessed Report* which is transmitted by electronic mail. FMD transmits the documents to the appropriate Regional FMO. FMO stated that they receive all documentation through the PO. Although the FMO does not encounter any problems receiving copies of AOCs, they have experienced delays in receiving judicial documents that are sent to the Superfund Legal from DOJ. DOJ is aware of the problem and the region has indicated that this has improved.

Delays in receiving this information can have the following impact on the accounts receivable process:

- Accounts Receivable are not established/recorded in a timely manner.
- Payment may be received by the Region, but due to the delay in establishing the receivable there is no record against which to post payment. The payment will then go into EPA's "Suspense account" until the supporting documentation is received to establish the account receivable. While these amounts are in suspense, they cannot be deposited in the Superfund Trust Fund and do not accrue interest.
- Where source documents are not provided in a timely manner, the Region may be unaware that a receivable exists and is already delinquent; consequently, they cannot accurately calculate interest related to the delinquency.

**Issue: In a limited number of cases, the Region was not notified when DOJ determined that a judgment had been appealed or a particular debt was uncollectible.**

On occasion, DOJ has failed to forward sufficient documentation or correspondence advising the Agency of changes in the status of debts or close outs. When DOJ fails to notify EPA of changes in the status of debts or when they close their claims files, these debts will continue to languish unnecessarily on the Agency's books and accrue compounded interest which then inflates the Agency's assets as reported in its financial statements.

## **RECOMMENDATIONS**

### **Headquarters**

- Revise the current DOJ IAG to emphasize the timely transmittal of final judicial documents from DOJ (e.g., entered consent decrees) needed by EPA to record accounts receivable. This would complement the July 19, 1998, memo from Steven A. Herman entitled "Effective Debt Management".
- Request that FMD add the PO as an addressee to receive the electronic notification of judicial enforcement agreements.



## **DOJ**

- Notify EPA in writing (e.g., Debt Closeout and Surveillance Letters) and to provide source documents (e.g., bankruptcy settlements and associated discharge notices) concerning changes affecting the collectibility or final disposition of debts. EPA recommends that the IAG be modified to require DOJ to provide such documents to the Superfund Legal and FMO within 30 days of any action which formally changes the status of the collectibility of the debt.
- Establish single point of contact for judicial source documents at DOJ.
- Provide the Region with the newly created payment report on a quarterly basis.

## **Region 1**

- Superfund Legal should include delinquent accounts receivable as a standing agenda item in regional Superfund Legal, DOJ docket reviews.
- Regional PO may want to participate in the Docket Reviews because this office plays an integral part in the accounts receivable process.

## **Headquarters/DOJ/Region 1**

- Continue to explore the option of enhancing the timely establishment of accounts receivable through the electronic notification process. Region 1 reported that the information currently provided in electronic format (the DOJ "Debts Assessed Report") has been useful.

## **II. Internal Regional Communications/Information Exchange**

**Issue: Although the three offices are involved in managing Superfund Accounts Receivable, changes to the internal communications procedures could result in a more efficient process.**

The Region's process for managing accounts receivable appeared somewhat inefficient. There are communications between the FMO and the PO and separate communications between the PO and Superfund Legal. Having all affected parties (i.e., FMO, PO, and Superfund Legal) communicating concurrently should be more efficient. Numerous issues regarding the status, disposition and planned action regarding overdue receivables could be resolved more easily and

quickly through periodic face-to-face discussions between all three offices and would provide a better understanding of specific issues affecting the collection and information needs of each office.

## **RECOMMENDATIONS**

### **Region 1**

- Revise the regional MOU among the FMO, PO, and Superfund Legal to specifically address roles and responsibilities with respect to Superfund accounts receivable management. Although the roles and responsibilities for the PO, Superfund Legal, and the FMO are included in other documentation, the MOU will serve to establish, clarify, and formalize the current roles for each office in the accounts receivable process.
- Add the FMO to the standing Accounts Receivable Case Site Team. By participating on the team, the FMO can become more involved in the activities specifically related to the payment terms of proposed settlements which would have a positive affect on financial management.
- Request that the Superfund Legal and PO review and provide comments to the FMO monthly accounts receivable report. This review will assist in determining if follow up actions (e.g., referrals, write-off, or status code changes) are needed for any outstanding receivables.
- Schedule regular team meetings with respect to cost recovery issues (e.g., monthly or quarterly). One of these meetings should occur at or near fiscal year end to help ensure the accuracy of the accounts receivable numbers within IFMS and the Agency's annual financial statements. Establish overdue accounts receivable as a standing agenda item at these meetings.
- Conduct annually a comprehensive review of open accounts receivables. Establish or revise allowances for doubtful accounts, as needed. This action requires all three offices to review the status of delinquent accounts receivable to determine the likelihood of collection and establishing, or adjusting, allowances for amounts deemed uncollectible (e.g., bankruptcy cases). Discussions may require contact with DOJ to determine current disposition of debts under their purview.
- Conduct regular reviews of IFMS accounts receivables status codes and record new or revised IFMS accounts receivable status codes in IFMS. Any changes made should be

properly recorded in IFMS by the FMO. This action requires all three offices to routinely discuss the status of delinquent debts and the proper assignment of the status codes.

- Request that all three regional offices continue to place more emphasis on discussing the status of outstanding delinquent debts to determine final disposition (e.g., Superfund Legal follow up, refer to DOJ, write-off) of these debts.
- Implement Headquarters guidance on the referral and collection process of delinquent debts.

### **III. National and Regional Data Management/Data Quality**

**Issue: Region 1 has created a separate data system for tracking Superfund accounts receivable because neither IFMS or CERCLIS contain all the information needed to effectively manage its accounts receivable. In addition, Region 1 indicated that it is difficult to retrieve data using the MARS reporting system for accounts receivable tracking and management.**

The Region uses two separate information systems to track aging accounts receivables. The primary tracking system is EPA's IFMS located at EPA Headquarters. Receivables are recorded and tracked in IFMS by the FMO. As the Agency's official accounting system, IFMS is also the Agency's official system for tracking accounts receivable. The FMO staff tracks the status of receivables on a monthly basis and provides information for all receivables to the PO.

The FMO developed a second internal database in Microsoft Access to track accounts receivable. The internal database records oversight bills and is able to specifically track oversight bills easier than IFMS. In the regional system, the Region is able to easily develop custom reports to meet its needs, and is able to identify IFMS site spill IDs and billing document numbers. The Region uses this database to identify delinquent debts.

Further, retrieving data from IFMS in a report format that meets the Region's accounts receivable tracking needs is difficult. Although the OCFO has made substantial strides in this area by making accounts receivable data available through the Data Warehouse, on EPA's intranet site, additional work in this area would be helpful in meeting the Region's data needs.

Using the regional data base, the FMO creates a monthly report providing information on the outstanding accounts receivable. The FMO uses the comment field on the report to highlight specific information pertaining to each site. The report is then distributed electronically to both the PO and the Superfund Legal. The PO would then provide a follow up response to the report describing the current status of each site. On occasion, the FMO receives site status updates

directly from Superfund Legal staff. Using this information, the FMO translates the information into the HQ/FMD accounts receivable status codes, and assigns and records them into IFMS for each site.

While this approach appears to be effective for the region, maintaining a separate system to meet the Region's needs results in the inefficiency of all of the regional systems and may result in data quality problems inherent with duplicative, parallel data entry.

**Issue: Much of the data required by the Regions is contained in several information systems (i.e., CERCLIS, IFMS, and DOJ's TALON and CLASS).**

The Region requires information from all of these systems in order to effectively track and report on Superfund accounts receivable. Although these systems generally contain a common identifier (i.e., EPA SSID number) that could be used to link the data, the data resides on different platforms and is written in different software applications making it difficult to integrate. Although the ability to use the common identifier exists, it has not always been required in DOJ's systems and is not necessarily available when trying to reconcile data.

**Issue: Dunning Letters are a Requirement in Chapter 14 of the "Superfund Accounts Receivable and Billings" document.**

When it is determined that an accounts receivable has become delinquent, the FMO advises the PO and Superfund Legal of the overdue receivable, and the PO, in turn, follows up with Superfund Legal in regard to this debt. Although dunning letters are currently a requirement in Chapter 14 of the "Superfund Accounts Receivable and Billings" document, Headquarters has recently issued a guidance which supersedes Chapter 14. It is entitled "Referral Process and Timing for Collection of Delinquent Debts" dated April 6, 2000. The Region indicated that it is their practice not to send out dunning letters to PRPs to follow up on delinquent debts. They rely on the terms and conditions established in the enforcement agreements specifying the amount owed and the time frame in which this amount should be paid.

**Issue: The Region has reported accounts receivable status codes inaccurately or inconsistently in IFMS.**

During the site specific interviews, we found that out of the 23 sites where we conducted follow up interviews, in most cases the status codes were incorrect in the system. As discussed above, the FMO is responsible for assigning the accounts receivable status codes with input from the PO and Superfund Legal. Inaccuracies in recording accounts receivable status codes could have resulted from translating the notes from the regional monthly report into the current IFMS status codes. Region 1 indicated that the codes were assigned incorrectly due to confusion over

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the definition of the IFMS accounts receivable status codes and some ambiguity in the codes that limited their utility. For example, using the Region's site backup dated from April 6, 2000, there were 75 overdue receivables with outstanding amounts greater than 120 days. Out of the 75 receivables, 47 (63%) were coded as a status code 08, Delinquent in the Dunning Cycle.

## **RECOMMENDATIONS**

### **Region 1**

- Initiate routine reviews and reconciliations with FMO, Superfund Legal and the PO to determine the accuracy of IFMS accounts receivable data and corresponding accounts receivable status codes. This is consistent with the recommendations in Section II.
- Follow procedures in the "*Interim Guidance on the Referral Process and Timing for Collection of Delinquent Debts Arising under Superfund Judicial or Administrative Settlements*" regarding the issuance of "Notice of Non-Compliance with Payment Provision" to overdue accounts receivable.
- Participate on the HQ workgroup, when established, to review existing IFMS AR Status Codes.

### **Headquarters - OCFO/OSRE**

- Establish a work group (OCFO and OSRE), including Regional FMOs, PO, Superfund Legals, and DOJ, to examine the feasibility of integrating data from existing information systems (i.e., IFMS, CERCLIS, TALON, and CLASS) to meet Regional information needs for effective receivables management.

### **Headquarters - OCFO**

- Establish a workgroup (OCFO) to identify and implement short term enhancements to the Data Warehouse that would facilitate and enhance accounts receivable management pending the findings of the workgroup results from the above recommendation.
- Establish a workgroup (OCFO) to review existing IFMS accounts receivable status codes to eliminate any overlap and ambiguity in interpretation. Add new or revised codes, as necessary. Review existing AR Status Code definitions to determine if it is necessary that they be clarified or revised to ensure that they can be properly applied and recorded in IFMS.

## **DOJ**

- Determine if DOJ would allow EPA to access its TALON and CLASS systems similar to its now defunct Lands Docket Tracking System in order to facilitate regional access to DOJ receivable and payment information.

## **IV. Account Receivable Enforcement/Collection of Delinquent Debt and Write-Offs**

**Issue:** In Region 1, there were specific cases where debts had been determined to be uncollectible, but the Region was unclear on the appropriate write-off procedures pertaining to Superfund debts.

Specifically, the Regions are uncertain under what authority these debts can be written-off and which Agency official(s) has the authority to write-off the debt. In addition, a recent Headquarters workgroup developing policies related to the enforcement of accounts receivable identified issues unique to the collection and write-off/compromise of CERCLA settlement funds/claims. This workgroup raised issues concerning whether the prevailing authorities (i.e., Federal Claims Collection Act (FCCA), Debt Collection Act (DCA), Debt Collection Improvement Act (DCIA), or CERCLA) used for non-Superfund debt also apply to the collection or write-off of overdue CERCLA settlement funds. To clarify the process for enforcing/collecting overdue accounts receivable, on April 6, 2000, OSRE issued the *"Interim Guidance on the Referral Process and Timing for Collection of Delinquent Debts Arising under Superfund Judicial or Administrative Settlements."* This guidance interprets CERCLA as the prevailing authority for the enforcement/collection of overdue Superfund receivables. However, the write-off process for post-settlement/post-judgment CERCLA debts remains unclear; consequently, uncollectible Superfund debts shown as being open in IFMS continue to accrue interest and inflate the Agency's assets and claims to accounts receivable. Due to the lack of specific authorities and guidance for writing-off Superfund debts, the Agency has used the authorities provided under the FCCA, DCA, and DCIA to write-off Superfund debts in the past. Under the DCIA, debts may not be written-off by the Agency until the debts have been provided to Treasury for cross-servicing (i.e., debt collection). If the amount referred to Treasury cannot be collected and is returned to the Agency, this amount may be written-off only at that time.

## **RECOMMENDATIONS**

### **Headquarters—OCFO, OSRE, OGC, DOJ**

- Establish a workgroup (OSRE, in conjunction with OCFO, DOJ, the Regions, and Office of General Counsel) to develop a policy on the authorities and procedures for writing-off CERCLA debt. OSRE has already begun researching this issue in an attempt to

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determine under what authorities CERCLA debts can be written off. OSRE's research to date indicates that DOJ has the authority to write-off these amounts. Although research will continue in this area, DOJ is uncertain if they can re-delegate this authority to EPA.

- Revise (OCFO) Chapter 14, RMDS 2550D, "Superfund Accounts Receivable and Billings" to ensure that the roles and responsibilities section of this document, as well as all remaining sections, to ensure that the document is as current as possible—specifically addressed should be situations that are unique to the billing, collection, enforcement, and write off of Superfund debts.

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- Discuss and revise all internal documents among the FMO, PO, and Superfund Legal to clarify the respective roles and responsibilities with respect to all aspects of cost recovery actions, including the establishment, tracking, enforcement/collection, and write-off of accounts receivable.
- Provide all attorneys, in addition to branch and section chiefs, with Superfund monthly reports provided by the FMO on overdue receivables. More direct involvement with the Superfund Legal in the monthly discussions with the FMO and PO on aging accounts receivable and sites which are in dispute would be beneficial in resolving issues more efficiently.

**CONCLUSION**

While the region has made progress in managing their accounts receivable, this report cites several areas where they could improve the effectiveness and efficiency of the accounts receivable process or where guidance or support from Headquarters would be useful. The Region could significantly improve the way it manages its accounts receivable by simply improving the way the offices involved in the accounts receivable process interact and communicate among themselves. The ability to establish, track, and effectively communicate and discuss changes concerning the status of accounts receivable is the key to successfully managing accounts receivable. Without routine communication, open accounts receivable that should be closed or referred to DOJ might languish unnecessarily for extended periods of time and will subsequently inflate the Agency assets as reported in its annual financial statements.

With this thought in mind, we ask that all three offices begin engaging in more routine discussions concerning changes in accounts receivable and the status of delinquent debts to

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determine appropriate follow up actions for any uncollectible amounts. Routine follow up on these delinquencies will enable the Agency to enforce and collect debts when possible, and to more accurately report the status of its assets.



**ATTACHMENT A**

**SUMMARY OF ISSUES AT SELECTED SITES**

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Site	Age	Amount	Issues	Resolution
W. R. Grace & Co.	310	\$225,510	Overlapping settlements on the site left the billing unclear. It was difficult to determine based on EPA's accounting in IFMS, the costs associated with each settlement. There was a single regional work assignment for multiple tasks which are addressed in each settlement which caused the problem and the resulting dispute.	The Region held discussions with the contractor on the site. The contractor is currently reviewing the cost/work performed documents to determine what costs are subject to the cap. The Region believes that within the next month the dispute will be resolved. Once the contractors have identified the costs, Superfund Legal will inform finance to reissue a revised bill or the PRP will pay the old bill.
Iron Horse Park (Boston and Maine)	3356	\$201,125	An amount equal to the principal amount of the bill was paid in full, however, since the 1 <sup>st</sup> and 2 <sup>nd</sup> bills were paid late, the overdue amount is the late fee plus accrued compounded interest. However, due to accounting practices which require payments to be made first against interest and the against the principal, the amount outstanding in IFMS remains recorded in IFMS as unpaid principal.	The Region requested that HQ provide a written writeoff policy specifically addressing de minimis amounts of unpaid interest prior to writing off the costs.
Iron Horse Park Site	2427	\$5,925	The bill is paid in full which includes \$25K in interest. Since the 1 <sup>st</sup> and 2 <sup>nd</sup> bills were paid late, the overdue amount is the late fee plus accrued compounded interest.	The Region requested that HQ provide a written writeoff policy specifically addressing de minimis amounts of unpaid interest prior to writing off the costs.
Eagle Pitcher, Inc.	1181	\$10,143	This was part of a large bankruptcy case. HQ negotiated the settlement and the Region provided comments on the dollar amount. A portion of the original debt and the remainder was discharged as a judgment. However, the region is unsure if the funds were to be applied against the Region's open receivable.	HQ and the Region will work together to resolve this issue.

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Site	Age	Amount	Issues	Resolution
Gonic Two Drum Site (two settlements)	2916	\$514,494 \$175,505	These over dues resulted from two removals with two PRPs. The sites are cleaned up and DOJ placed judgments against the PRPs. Both PRPs did not pay, however, one PRP is having his pay garnished for a small amount of money every two weeks (\$115.44). This payment is not enough to cover the interest on the amount owed.	Change status code to a 3. Followup with DOJ to find out why they never pursued collection of the debt against the other PRP. Because the financial paperwork for recording the small amount received, may want to contact DOJ to see what is possible in removing outstanding amount from IFMS.
United Technologies Corp. (two settlements)	1) 700 2) 698	\$239,063 \$229,688	Both receivables are current; not delinquent. The Region stated that a delay occurred in entering the CD into the system because of litigation. 1st payment was due April; collection made on 4/24/00.	Dates in IFMS should be changed. AR codes should be changed to 1 or 13 (installment payment).
Auburn Road Site	2418	\$476,922	Billing of the on-site costs were done through a Unilateral Order issued in the early 1990's.	A global settlement was in March 2000 which recovered all of the costs. Superfund Legal should send finance documentation to remove from IFMS.
Industriplex Site	1244	\$3,300	Principle paid in full. This is a timing issue representing a slight discrepancy as to when the bill was due and the payment received.	The Region requested that HQ provide a written writeoff policy specifically addressing de minimis amounts of unpaid interest prior to writing off the costs.
Laurel Park Landfill (two settlements)	1) 141 2) 506	\$157,257 \$623,792	This receivable is in formal dispute regarding the ability to recover indirect costs. New indirect cost rates may affect the way Superfund Legal litigates this case. Since the costs may decrease, a question as to how to proceed arises. Would delayed billing set precedent?	HQ is working to resolve this issue. Region should change status code to 21.
Salem Realty Trust	509	\$358,368	The site is completely cleaned up. Receivable is in informal dispute for past and oversight costs. The PRP needs a certification letter stating that all contamination is remediated before they can restore the property for other uses. gone before they can restore the property for other uses.	The region believes that the PRP will pay the amount settled without compromise because a remedy certification letter is needed before they can restore the property for other uses. The region hopes to resolve the dispute soon and will issue the certification letter when the bill is paid. Status code should be changed to 21.

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Site	Age	Amount	Issues	Resolution
Arco	709	\$32,332	PRPs indicated that they had paid the settlement in full. Although the region has a facc copy of a check, they will need to check with DOJ to see if they have received the check and attributed it to EPA.	Finance should recheck the interoffice transfer logs to see if an oversight in logging the payment occurred and research the payment with HQ finance and the DOJ. Status code should be changed to 21 until appropriate paperwork is located to be removed as an outstanding amount in IFMS.
Savage Municipal W. S. (five settlements)	1) 1905 2) 1874 3) 1545 4) 1179 5) 814	\$63,791 \$46,207 \$165,025 \$165,025 \$198,060	These receivables consist of installment payments under the terms of five agreements. The PRP filed for Chapter 11 bankruptcy, reorganization. Although the region filed a proof of claim under the bankruptcy, Superfund Legal will not receive a discharge notice because of the type of bankruptcy.	The receivable will remain open and collections made consistent with the final bankruptcy reorganization plan. Status code should be changed to 15.
The Bayl Company	4281	\$14,453	The site is under a CD and was referred to the Treasury Department cross servicing some time last year. It is up to Treasury to collect the funds.	Research to find out the status of the collection at Treasury. The region could take back from Treasury and refer to DOJ for collection.
Tanistor Electronic Site	1077	\$89,850	PRP disputed the RIFS and RDRA costs related to the site. Negotiations were held with the PRP on the RDRA costs and a CD was entered for \$300,000. The \$89,850 should be included in the \$300,000.	Research to find out if the \$89,850 is part of the \$300,000 negotiation. Finance should do an accounting adjustment and remove the outstanding amount from IFMS; Superfund Legal to provide the proper documentation.
Gallups Quarry Site	2672	\$156,600	This is a national bankruptcy which was handled by HQ. EPA received \$114,000 in Uniroyal stock. The region should find out whether receiving the stock discharged the unresolved debt.	Contact John Wheeler (HQ) to find out if a discharge notice against the bankruptcy was issued. The region needs a copy to remove the receivable from the books. Status code should be changed to 15. HQ/FMD should provide the region with a memo indicating that it is acceptable to write off the balance once the discharge notice is received. In addition, HQ/FMD should develop a memo indicating when a discharge notice is received, unallocated debt should be adjusted.

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Site	Age	Amount	Issues	Resolution
The O'Day Corporation	3811	\$489,134	The PRP filed for bankruptcy. The region filed a proof of claim and the Superfund Legal aggressively pursued the case and received \$61,000. The program noted that they sent the discharge notice to finance; finance can write off the receivable with the discharge notice.	HQ/FMD: Provide the region a memo indicating that it is acceptable to write off the balance once the discharge notice is received.

## **ATTACHMENT B**

### **ACCOUNTS RECEIVABLE STATUS CODES**

- 01 Noncurrent, non delinquent receivables. All receivables, installment and non-installment receivables, not due and collectible within the next 12 months
- 02 Referred to Collection Agency - Outstanding debts at a private collection agency.
- 03 Referred to or originally litigated at the Justice Department - Outstanding debts that are in litigation at the Department of Justice with the statutory authority to litigate.
- 05 Unmatured Asbestos Loan - Undisbursed Asbestos Loans.
- 07 Collection Action Suspended - Outstanding debts are put on hold. The prospect of future collection justifies retention of the debt for periodic review and there is no risk of expiration of the statute of limitation during the period of suspension.
- 08 Delinquent in Dunning Cycle - Delinquent Outstanding Debts with no legal processes involved. This includes delinquent installment receivables.
- 10 Referred to Regional Counsel - Delinquent debts that are referred to regional counsel for further deliberation.
- 11 Debtor in Bankruptcy - Delinquent collateralized or uncollateralized debts in bankruptcy.
- 12 With FMO for Write-off Decision
- 13 Current receivable, including but not limited to installment receivables, that are not delinquent.
- 15 Debtor in Bankruptcy with DOJ
- 16 Debts Under Appeal with DOJ
- 17 Debts Forwarded to Claims Coordinator for Cross Servicing to Treasury
- 18 Debts Claims Coordinator Forwarded to Treasury for Cross Servicing
- 19 Debts written off with Liens
- 21 Superfund oversight debts under appeal. Debts currently in formal or informal appeals process.
- 96 EPA Claims Office - Debts referred to OGC (Office of General Counsel) for further processing.
- 97 Debts Under Appeal - Debts in formal appeals process. The result of which affects the validity and/or the dollar amount to be collected.