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Subject: Audit of Missouri Department of Natural Resources
Superfund Cooperative Agreements V-007587-03 and VC-007494-05
Report No. E5BGL6-07-0035-7100220

From: Bennie S. Salem *Bennie Salem*
Divisional Inspector General

To: Carol Rompage
Grants Management Officer

We have completed the subject audit. The Superfund cooperative agreements provided support to conduct preliminary assessments and site investigations and support for Missouri Department of Natural Resources (MDNR) overall ability to participate in the Superfund response program. The purpose of the audit was to determine the allowability of interim costs claimed for the two Superfund cooperative agreements and to review MDNR controls as they related to the costs claimed.

We found MDNR improved its ability to accumulate, track, and report federal expenditures through the implementation of the Integrated Administrative System (IAS). MDNR used IAS to generate project costs to report interim federal financial status report expenditures. However, MDNR needs to ensure the accuracy and completeness of IAS data and document IAS processes, control procedures, and reporting responsibilities.

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

We have no objections to the release of this report to any member of the public upon request. This report contains no confidential business or proprietary information that cannot be released to the public upon request.

Should you or your staff have any questions, please contact me at (913) 551-7831 or Connie Walton, Audit Manager, at (913) 551-7007. Please refer to the above audit control number on any correspondence.

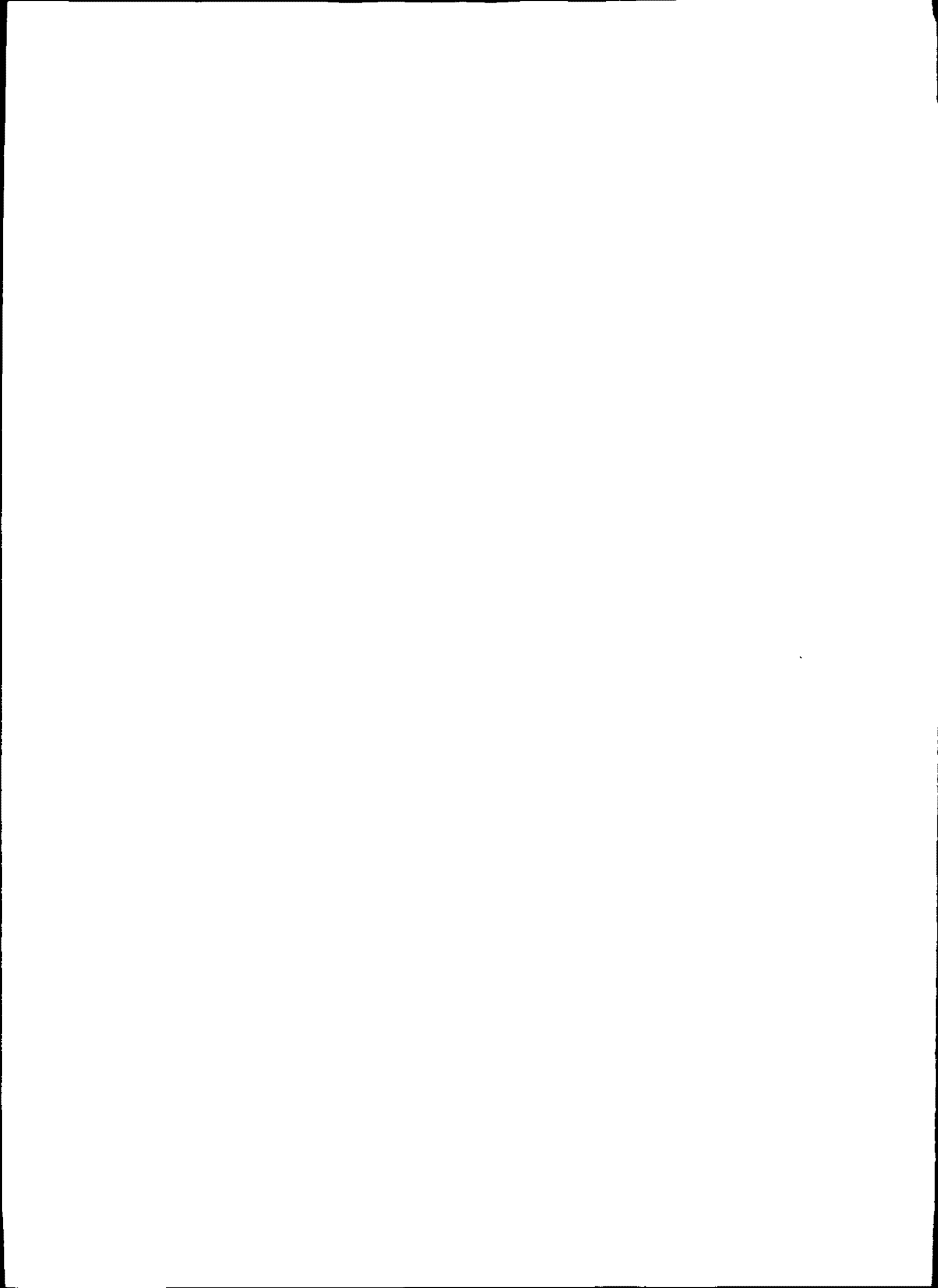
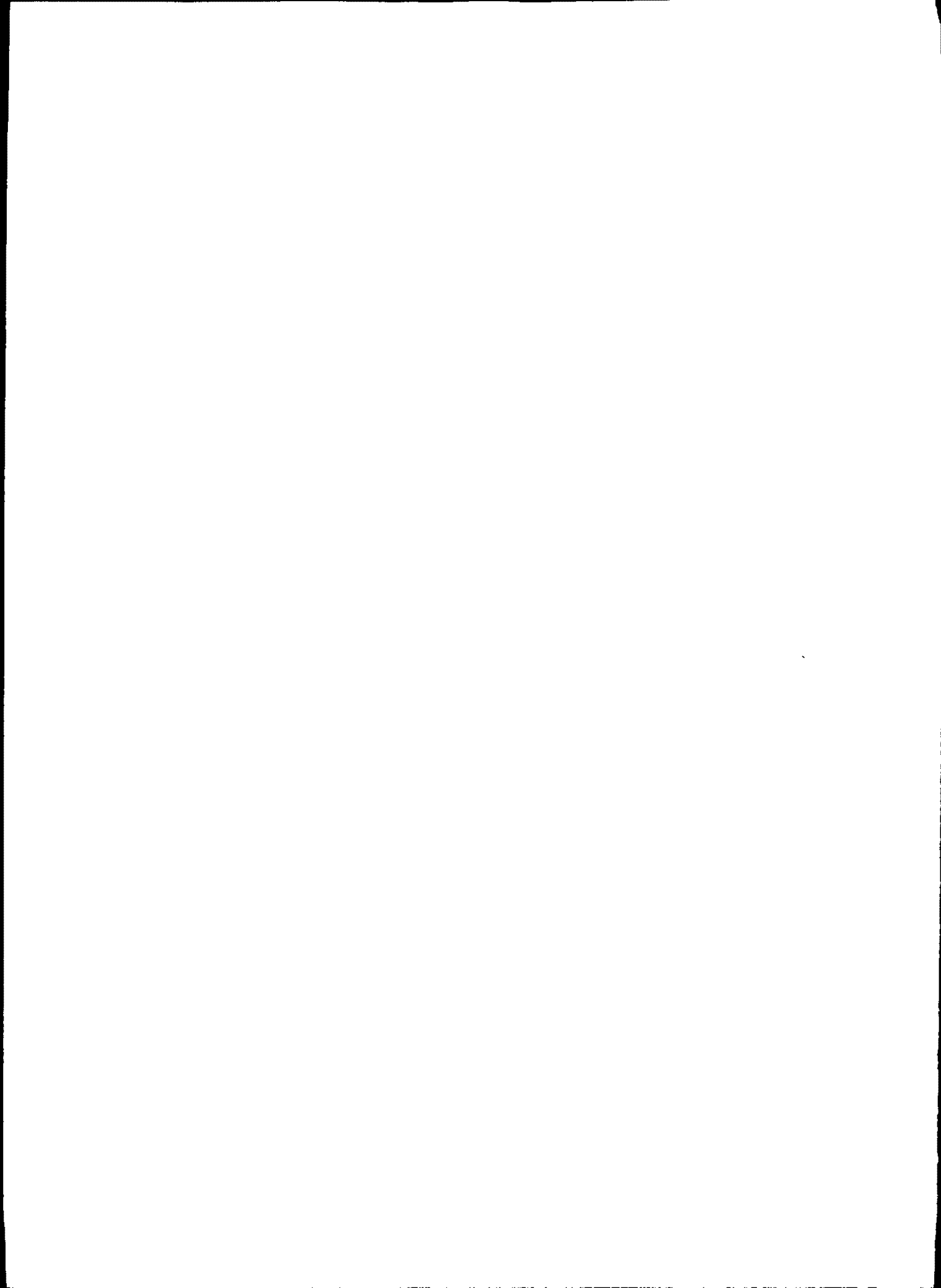


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EXECUTIVE SUMMARY

PURPOSE

We performed an audit of interim costs claimed for two Superfund cooperative agreements awarded to the Missouri Department of Natural Resources (MDNR). The purpose of the audit was to determine the allowability of costs claimed and the adequacy of controls exercised by MDNR's financial management and accounting systems.

BACKGROUND

The Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA or Superfund) provides the Environmental Protection Agency (EPA) authority to clean up uncontrolled hazardous waste sites. EPA encouraged states to assume lead management responsibilities for cleaning up sites. CERCLA, as amended, provided statutory authority to EPA to provide financial assistance to the states through cooperative agreements.

MDNR had 13 active Superfund cooperative agreements in August 1996, totaling over \$4 million in federal assistance. The cooperative agreements provided MDNR funding to identify, assess, and respond to sites which potentially threatened public health and the environment from the uncontrolled release of hazardous substances. The two cooperative agreements reviewed had a funding level of \$1.7 million and claimed cost of \$1.2 million reported interim costs.

WE FOUND THAT

MDNR improved its ability to accumulate and report federal expenditures with the implementation of its Integrated Administrative System (IAS). IAS improved the equitability of MDNR's personnel cost allocations to federally funded projects. Also, IAS tracked costs using the federal object class cost categories which allowed MDNR to more efficiently track and report costs incurred on federal financial status reports.

While MDNR improved its reporting capabilities with IAS, MDNR had not ensured the accuracy and completeness of IAS

processed data. MDNR had not reconciled IAS system data to data in the Statewide Accounting for Missouri (SAM), Missouri's official accounting system. As a result, IAS may have generated inaccurate grant and project cost data. The lack of reconciliations is a pervasive control problem which affects all EPA financial assistance to MDNR.

MDNR had not documented its methodology, standards, or guidelines of acceptability for verifying the accuracy and completeness of IAS data. MDNR needed additional documentation of IAS processes, control procedures, and exception reporting responsibilities. MDNR should have an independent assessment conducted on the propriety, reliability, and accuracy of IAS processed data. And, MDNR needed to develop IAS transaction level detail reports to enable independent reviews of costs processed.

**WE RECOMMENDED
THAT**

The Regional Administrator direct MDNR to develop and implement procedures to consistently reconcile all IAS cost data to SAM. MDNR should document its methodology, standards, or guidelines of acceptability for verifying the accuracy and completeness of IAS data. Also, MDNR should establish clear standard procedures for addressing exception report issues and ensure responsibilities are clearly defined. MDNR should consider obtaining an independent assessment of the reliability and completeness of IAS processed data and the adequacy of IAS controls. MDNR should develop transaction level detail reports which support the IAS standard report cost summaries.

**AUDITEE COMMENTS
AND OIG EVALUATION**

Region 7 and MDNR agreed with our findings and recommendations.

PURPOSE

We performed an audit of interim costs claimed for two Superfund cooperative agreements awarded to the Missouri Department of Natural Resources (MDNR). The purpose of the audit was to determine the allowability of the MDNR costs claimed for the two Superfund cooperative agreements. Our specific objectives were to determine whether:

- ▶ costs claimed appeared to be reasonable, allocable, necessary, and eligible based on compliance with the cooperative agreement terms and applicable federal and state regulations; and
- ▶ controls exercised by MDNR's financial management and accounting systems appeared to adequately provide assurance that costs claimed were allowable.

BACKGROUND

The Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA or Superfund) provides the Environmental Protection Agency (EPA) authority to clean up uncontrolled hazardous waste sites. EPA encouraged states to assume lead management responsibilities for cleaning up sites. CERCLA, as amended, provided statutory authority to EPA to provide financial assistance to the states through cooperative agreements.

MDNR had 13 active Superfund cooperative agreements in August 1996 totaling over \$4 million in federal assistance. The cooperative agreements provided funding for MDNR to identify, assess, and respond to sites which potentially threatened public health and the environment from the uncontrolled release of hazardous substances. Cooperative Agreements V-007587-03 and VC-007494-05 had the highest claimed costs.

Cooperative Agreement V-007587-03 provided MDNR funding to conduct preliminary assessments and inspections at several potential hazardous waste sites. This type of cooperative agreement is referred to as a pre-remedial preliminary assessment/site investigation (PA/SI) agreement. Region 7 awarded MDNR the PA/SI cooperative agreement on September 30, 1994. The PA/SI cooperative agreement had a \$1,225,000 funding level and no state funds match requirement.

MDNR reported \$761,329 of interim PA/SI costs on the June 30, 1996 federal financial status report, detailed in Exhibit A.

Cooperative Agreement VC-007494-05 provided MDNR funding for its Core program. Region 7 annually awards MDNR a cooperative agreement to fund activities which support its overall ability to participate in the Superfund program, such as training and computer equipment purchases. Region 7 awarded the MDNR Core cooperative agreement for fiscal 1995 activities on February 1, 1995. This Core agreement had a \$446,297 funding level with a 10 percent state funds match requirement. MDNR reported \$447,152 interim Core costs on the June 30, 1996 financial status report, with a \$375,000 federal share. These costs are detailed in Exhibit B.

SCOPE AND METHODOLOGY

We conducted our fieldwork from September 1996 to February 1997. We performed work at Region 7 in Kansas City, Kansas, and at MDNR offices in Jefferson City, Missouri. Our review covered the period October 1, 1994, through June 30, 1996.

We performed the audit in accordance with *Government Auditing Standards* (1994 revision). We used the Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (May 1995); EPA regulation 40 Code of Federal Regulations (CFR) Part 31, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*; EPA regulation 40 CFR Part 35, *State and Local Assistance*; and the terms and conditions of the cooperative agreements as criteria in evaluating claimed costs.

We reviewed Cooperative Agreements V-007587-03 and VC-007494-05 and supporting documentation at Region 7 and MDNR. We interviewed Region 7 project officers and reviewed Region 7 administrative files and financial records. We interviewed personnel from the MDNR Division of Administrative Support and Division of Environmental Quality, and met with personnel from the Missouri State Auditors Office. We obtained a general understanding of MDNR's financial reporting process and procedures. We sample tested personnel, travel, equipment, supply, contractual, and other costs claimed.

Our efforts did not include a complete review of MDNR's internal control systems. We focused our review on the MDNR systems in place to control and manage the Superfund cooperative agreements. In regard to MDNR's additional controls, we relied on the Missouri State Auditors' annual State of Missouri single audits. We did not perform tests of all internal control systems; however, we reviewed the single audit work and results for issues applicable to MDNR's Superfund cooperative agreements for the fiscal year ended June 30, 1996.

We did not review MDNR's approved indirect cost rates. The United States Department of the Interior has responsibility to review and negotiate MDNR's indirect rates. Although a review of the development of the rates was not within our scope, we did review the proper application of the rates.

Issues identified in our review concern weaknesses in MDNR's Integrated Administrative System (IAS), implemented on November 1, 1995, and are discussed below. No other significant issues came to our attention at the time to warrant expanding the scope of our review.

PRIOR AUDIT COVERAGE

We reported several internal control and compliance issues in an April 1992 audit report of two MDNR Superfund cooperative agreements. We found: (1) MDNR used two questionable cost allocation methods, (2) inventory records were not in compliance with federal property management standards, (3) reporting practices were misleading, and (4) MDNR claimed ineligible cooperative agreement expenditures.

RESULTS OF AUDIT

OPINION

In our opinion, except for the possible effects, if any, related to resolving the accounting system issues reported below, the interim costs claimed under the two cooperative agreements appeared to be fairly presented in accordance with applicable EPA regulations, other federal and state requirements, and the cooperative agreement terms and special conditions. We did not question costs claimed.

REPORT ON
COMPLIANCE AND
INTERNAL CONTROL

In general, we found MDNR complied with the cooperative agreement terms and special conditions. MDNR improved its ability to accumulate, track, and report federal expenditures through the implementation of IAS. MDNR developed and implemented IAS, its new departmentwide system, to track the costs of individual grant projects. MDNR used IAS-generated project costs to report the interim federal financial status report expenditures for the two cooperative agreements reviewed. However, we noted some improvements are needed in the IAS system to ensure the accuracy and completeness of IAS data.

MDNR Improved
Reporting Capabilities
With IAS

IAS improved MDNR's capability to accumulate and report federal expenditures. IAS improved the equitability of MDNR's personnel cost allocations to federally funded projects. Also, IAS tracked costs using the federal object class cost categories which allowed MDNR to more efficiently track and report costs incurred on federal financial status reports.

IAS improved the equitability of MDNR's indirect personnel costs allocated to federally funded projects. Prior to IAS, employees elected where to charge their indirect time; e.g., annual and sick leave. IAS automated the allocation of indirect personnel costs proportionately to the employee's direct grant and project charges. As a result, indirect personnel costs were more equitably allocated.

IAS provided MDNR the ability to more efficiently track and report project costs by federal object class categories through automated tracking and reporting. Prior to IAS, MDNR manually tracked costs by grant and project. IAS provided the ability to generate standard reports which summarized monthly and cumulative expenditures. MDNR used the IAS standard reports to prepare quarterly federal financial status reports.

MDNR Needed to
Ensure Accuracy
and Completeness
of IAS Data

While MDNR improved its reporting capabilities with IAS, MDNR had not ensured the accuracy and completeness of IAS processed data by ensuring the total IAS allocated costs agreed to the total costs reflected in SAM. As a result, IAS may have generated inaccurate grant and project cost data. All payments for MDNR expenditures were processed in SAM and electronically transmitted to IAS. IAS allocated personnel costs and accumulated all other expenditures by projects and grants. MDNR used the grant and project cost data to generate the federal financial status reports.

MDNR had begun developing reconciliation procedures for supplies and equipment type costs; however, it had not developed reconciliation procedures for personnel services costs. Personnel services costs represented 55 percent of the total direct costs claimed for the 2 cooperative agreements reviewed, and 87 percent of total costs claimed when including fringe benefits and the associated indirect costs.

The lack of reconciliations is a pervasive control problem which affects all EPA financial assistance to MDNR. MDNR representatives stated they were working on IAS to SAM reconciliations. However, the representatives did not provide timeframes for expected completion. Also, MDNR representatives did not indicate plans to retroactively reconcile costs since the inception of IAS on November 1, 1995. MDNR needs to perform reconciliations to ensure IAS consistently processes accurate grant and project cost data.

MDNR Needed Additional IAS Documentation

MDNR needed to clearly document IAS processes, control procedures, and exception reporting responsibilities. MDNR needed detailed standard reports of IAS processed transaction level data to enable independent reviews of costs processed.

MDNR needed additional documentation of IAS processes and control procedures. MDNR had not documented its methodology, standards, or guidelines of acceptability for verifying the accuracy and completeness of IAS data. Systems documentation and established control standards are essential for subsequent reviews, continuing maintenance, and new user training. MDNR representatives agreed the IAS Procedures Manual needed to be updated. Also, MDNR had not developed standard procedures that clearly defined exception reporting responsibilities, nor obtained an independent assessment of the IAS system.

MDNR personnel could not use the IAS standard reports to review the overall reasonableness and accuracy of IAS processed costs. IAS standard reports contained only object class totals and did not provide the detailed transactions. As a result, MDNR personnel had to develop special query reports to provide transaction level detail for costs claimed. MDNR personnel obtained the query reports by requesting specific data from the IAS database using a separate software program. The transaction level detail totals for

personnel services costs for three of the nine query reports we requested did not agree to the costs in the IAS standard reports.

Federal regulations, 40 CFR Part 31.20, requires the state's fiscal control and accounting procedures to be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. MDNR representatives stated they plan to generate an IAS detailed transaction report; however, they did not indicate a timeframe for expected completion.

CONCLUSION

MDNR improved its capabilities in tracking and reporting federal expenditures with IAS. However, MDNR needed to reconcile IAS data with SAM. The absence of reconciliations affects all financial assistance provided to MDNR.

Also, MDNR needed additional documentation of IAS processes and controls, and clearly documented standards for assessing the accuracy and completeness of IAS data. MDNR needed to develop procedures to clearly define exception reporting responsibilities. MDNR should have an independent assessment conducted on the propriety, reliability, and accuracy of IAS processed data. And, MDNR needed to develop IAS transaction level detail reports.

RECOMMENDATIONS

We recommend the Regional Administrator direct MDNR to:

1. Develop and implement procedures to consistently reconcile all IAS cost data to SAM. MDNR should include procedures to ensure costs incurred since the inception of IAS are reconciled to SAM.
2. Document its methodology, standards, or guidelines of acceptability for verifying the accuracy and completeness of IAS data.
3. Establish clear standard procedures for addressing exception report issues and ensure responsibilities are clearly defined.
4. Consider obtaining an independent assessment of the reliability and completeness of IAS processed data and the

adequacy of IAS controls. An assessment and testing of IAS should be performed by individuals independent of the system development.

5. Develop transaction level detail reports which support the IAS standard report cost summaries.

AUDITEE COMMENTS
AND OIG
EVALUATION

Region 7 and MDNR generally agreed with our findings and recommendations. MDNR has implemented or begun implementing corrective actions for three of the five recommendations. MDNR did not indicate planned actions for one recommendation and will reevaluate corrective actions for another.

MDNR agreed to reconcile all IAS cost data to SAM and expects a reconciliation of all costs to be completed by the end of the federal fiscal year. MDNR agreed with the recommendation to document its methodology, standards, and guidelines of acceptability for verifying IAS data; however, it did not indicate actions planned. MDNR implemented appropriate actions to establish clear standard procedures to address exception reporting issues and establish responsibilities. MDNR is considering an independent assessment of IAS and will discuss the assessment with the contractor implementing a new statewide accounting system for Missouri. MDNR has unsuccessfully attempted to develop transaction level detail reports and will reevaluate the situation to develop corrective actions.

EXHIBIT A

SCHEDULE OF INTERIM COSTS CLAIMED
FOR THE PERIOD OCTOBER 1, 1994 TO JUNE 30, 1996
UNDER PA/SI COOPERATIVE AGREEMENT V-007587-03

Personnel	\$386,054
Fringe Benefits	103,963
Travel	16,498
Equipment	31,571
Supplies	37,303
Contractual	20,790
Other	27,533
Indirect Costs	<u>137,617</u>
Total	\$761,329
 Shown on Financial Status Report	 \$761,329
EPA Share Claimed	\$761,329
MDNR Share	\$ 0

EXHIBIT B

SCHEDULE OF INTERIM COSTS CLAIMED
FOR THE PERIOD JANUARY 1, 1995 TO JUNE 30, 1996
UNDER CORE COOPERATIVE AGREEMENT VC-007494-05

Personnel	\$283,823
Fringe Benefits	78,443
Travel	49
Contractual	232
Other	300
Indirect Costs	<u>84,305</u>
Total	\$447,152
 Shown on Financial Status Report	 \$447,152
EPA Share Claimed (84%)	\$375,000
MDNR Share	\$ 72,152

STATE OF MISSOURI
DEPARTMENT OF NATURAL RESOURCES

Mei Carnahan, Governor • David A. Shorr, Director

OFFICE OF THE DIRECTOR

P.O. Box 176 Jefferson City, MO 65102-0176

MAY 7 1997

Mr. Bennie S. Salem
Divisional Inspector General
Central Audit Division
U.S. Environmental Protection Agency
7296 Minnesota Avenue
Kansas City, KS 66101

Dear Mr. Salem:

Enclosed is our response to the draft audit report for interim cost claimed under Superfund Cooperative Agreement Nos. V-007587-03 and VC-007494-05 awarded to the Missouri Department of Natural Resources.

We are very pleased with the positive statements your report had on MDNR's effort to improve our financial reporting capability. The issues presented in your review are addressed in the enclosure. The recommendations made have already been implemented or will be completed in the near future.

If you have any concerns or questions about our response, please contact Gary Heimericks, Director of the Division of Administrative Support at 573/751-7961.

Very truly yours,

DEPARTMENT OF NATURAL RESOURCES



David A. Shorr
Director

Attachment

c: John Young
Linda Jaegers
Ed Sadler
Ed Schneider
Marla Markway

We recommend the Regional Administrator direct MDNR to:

1. Develop and implement procedures to consistently reconcile all IAS cost data to SAM. MDNR should include procedures to ensure costs incurred since the inception of IAS are reconciled to SAM.

MDNR agrees with the recommendation to reconcile all IAS cost data to SAM. Since your office has left the field, considerable progress has been made toward a complete reconciliation. Thus far, all revenue and transfer transactions have been reconciled to SAM since the inception of the IAS system. We are in the process of reconciling, identifying and making necessary adjustments for the expense and equipment transactions. Our MIS and Accounting staff are developing standard report formats that will be used to facilitate the completion of all personal services (labor) costs. We expect the reconciliations to be completed during the third quarter of this calendar year.

2. Document its methodology, standards, or guidelines of acceptability for verifying the accuracy and completeness of IAS data.

MDNR agrees with the recommendation to document our methodology, standards, and guidelines of acceptability for verifying IAS data.

3. Establish clear standard procedures for addressing exception report issues and ensure responsibilities are clearly defined.

MDNR also agrees with the recommendation to establish clear standard procedures for addressing exception report issues. Toward this end a matrix has been devised that identifies the position in our Accounting Program responsible for all identified processes in the IAS system. In addition, the procedures manual has been revised to include procedures for the identification and handling of exception report issues.

4. Consider obtaining an independent assessment of the reliability and completeness of IAS processed data and the adequacy of IAS controls. An assessment and testing of IAS should be performed by individuals independent of the system development.

The State of Missouri recently awarded a contract to implement a state wide accounting system for the state. We will discuss with the contractor, providing an assessment of the IAS as part of MDNR's implementation of the new state wide system. The new state system may replace the IAS system. We will not know that until we have had an opportunity to review all of the modules of the new system.

5. Develop transaction level detail reports which support the IAS standard report cost summaries.

Considerable effort has been spent in developing and programming a transaction level detail report to support the IAS standard report cost summaries. Due to physical space issues we had originally developed the report to be available on microfiche. Given the amount of data to be included in the report, preliminary review of microfiche data presented information that was very small and therefore difficult to read. When this issue arose during the OIG's fieldwork, the computer program to generate this report was once again reviewed. The report could be generated in hard copy form. As a result of other IAS priorities, we have not had a chance to reevaluate how to best meet this recommendation. A major concern in the analysis will be evaluating the generation and maintenance of reports that are required on an exception basis. We will once again reevaluate this situation to determine the best solution to meet the intent of this recommendation.

ABBREVIATIONS

CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
CFR	Code of Federal Regulations
EPA	Environmental Protection Agency
IAS	Integrated Administrative System
MDNR	Missouri Department of Natural Resources
OIG	Office of Inspector General
PA/SI	Preliminary Assessment / Site Investigation
SAM	Statewide Accounting for Missouri

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