



# **Office of Inspector General**

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## **Report of Audit**

### **Indiana Superfund Cooperative Agreements**

**E5FGF5-05-0047-5100429**

**July 31, 1995**

**Inspector General Division  
Conducting the Audit:**

**Northern Audit Division  
Chicago, Illinois**

**Region Covered:**

**Region 5**

**Regional Offices Involved:**

**Planning and Management  
Division**

**Office of Superfund**



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF THE INSPECTOR GENERAL

NORTHERN DIVISION

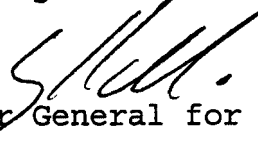
77 WEST JACKSON BOULEVARD

CHICAGO, IL 60604-3590

July 31, 1995

MEMORANDUM

SUBJECT: Final Report No. E5FGF5-05-0047-5100429  
Indiana Cooperative Agreements

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

TO: Valdas V. Adamkus  
Regional Administrator  
Region 5

We have completed our interim audit of Indiana Department of Environmental Management's internal controls over costs for their Superfund cooperative agreements. This audit report contains findings that describe problems the Office of Inspector General (OIG) has identified and recommendations for corrective action.

Action Required

In response to the draft report, your office provided us an action plan with milestone dates for the correcting the noted weaknesses. We find your response adequate and, as of the date of this report, we are closing out this audit in our audit tracking system. Please track all corrective actions and milestone dates in the Agency's Management Audit Tracking System. Also, we have no objections to further release of this report to the public.

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

Attachment

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# Indiana Superfund Cooperative Agreements

## EXECUTIVE SUMMARY

### PURPOSE

The Office of the Inspector General (OIG) performed an audit of the Indiana Department of Environmental Management's (IDEM) administration of Superfund cooperative agreements (CA). The audit was performed as part of the OIG's statutory requirement to audit a sample of CAs, as well as part of our ongoing oversight of Agency operations and programs. The objectives of our review were to determine whether IDEM:

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

### BACKGROUND

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

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

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



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Site/CA Name	CA Number	Funds Awarded <sup>1</sup>	Costs Incurred <sup>2</sup>
Continental Steel	V-005072-01	\$4,898,902	\$286,029
Galen Myers Dump	V-005072-01	\$1,039,217	\$80,529
Core Program	V-005990-01	\$3,554,474	\$1,218,382 <sup>3</sup>

### RESULTS OF AUDIT

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

#### Untimely Submission of Financial Reports

IDEM did not submit its last three semiannual Cash Transactions Reports (CTR) or its FY 1994 Financial Status Report (FSR) to EPA within Agency prescribed time limits. This untimeliness occurred because IDEM experienced:

- problems implementing a new automated accounting system, and
- an influx of new, inexperienced grant accounting personnel.

As a result, EPA was unable to timely monitor IDEM's Automated Clearing House (ACH) drawdown requests for FY 1994 and actual expenditures for open CAs. EPA needs to ensure that IDEM submits future CTRs and FSRs within prescribed time limits.

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<sup>1</sup>As of 9/30/93.

<sup>2</sup>Per 9/30/93 Financial Status Report.

<sup>3</sup>Federal share (\$1,353,758 X 90% = \$1,218,382).

Internal Control Weaknesses

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

- contract management,
- property management, and
- Core Program activity accomplishments.

REGION 5 COMMENTS AND ACTIONS

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

RECOMMENDATIONS

We recommend that Region 5 work with IDEM to:

1. Identify and implement ways to improve the timeliness of IDEM's accounting data and financial reports.
2. Train agency personnel supporting the Superfund program through use of Core Program funds.

We also recommend that Region 5 request that IDEM:

1. Ensure that its contracts manager is adequately trained and qualified to effectively administer Federally funded contracts.
2. Develop a Procurement and Contract Management Manual.
3. Develop a method to easily identify Superfund Core Program funded property.
4. Ensure that all fixed assets purchased with Federal funds are timely reported to the State Auditor and included in the State's inventory system.
5. Conduct annual physical inventories and reconcile the results to the state master inventory list.

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# Indiana Superfund Cooperative Agreements

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# Indiana Superfund Cooperative Agreements

## CHAPTER 1

### INTRODUCTION

#### PURPOSE

The Office of the Inspector General (OIG) performed an audit of the Indiana Department of Environmental Management's (IDEM) administration of Superfund cooperative agreements (CA). The audit was performed as part of the OIG's statutory requirement to audit a sample of CAs, as well as part of our ongoing oversight of Agency operations and programs. The objectives of our review were to determine whether IDEM:

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

#### BACKGROUND

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

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

- Multi-site CAs fund site specific remedial and removal activities.

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- Core Program CAs fund state activities needed to support the Superfund program.
- Pre-remedial CAs fund state activities such as preliminary assessments, site inspections, and hazardous ranking scoring.
- Enforcement CAs fund state oversight of responsible party activities at Superfund sites.

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

### SCOPE AND METHODOLOGY

During our audit, we reviewed two sites (Continental Steel and Galen Myers) under a multi-site CA to gain an understanding of IDEM's controls in the areas of financial management, accounting, procurement, and contract administration. We selected these two projects because they were the only ones with significant obligations. We also reviewed the Core Program CA to examine overall CA management. Table 1 provides a summary of the funds awarded and costs incurred for the three sites/CAs reviewed.

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Table 1  
IDEM Superfund Cooperative Agreements

Site/CA Name	CA Number	Funds Awarded <sup>1</sup>	Costs Incurred <sup>2</sup>
Continental Steel	V-005072-01	\$4,898,902	\$286,029
Galen Myers Dump	V-005072-01	\$1,039,217	\$80,529
Core Program	V-005990-01	\$3,554,474	\$1,218,382 <sup>3</sup>

For the two site specific projects, we obtained background information from the Region 5 Project Officer, evaluated the costs IDEM incurred, and assessed the controls over contractor performance and billings. We analyzed costs as of the latest available Financial Status Report (FSR), dated September 30, 1993. Since personnel costs were relatively low for both sites we performed a 100 percent review of those costs. In reviewing contractual costs for the sites, we selected a judgmental sample of five of the largest purchase orders. Three of these purchase orders (involving 11 invoices) were for the Continental Steel site and represented 49 percent of the total contractual costs on the project. The remaining two purchase orders (involving 11 invoices) were for the Galen Myers site and represented 75 percent of the total contractual costs on the project. We did not test costs in other categories as amounts claimed for those categories were not material to the total amount claimed. Since it was not practical to select statistical samples, our results were not projectable to the universe.

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

For all items tested, we examined the source documents and performed other audit procedures that we considered necessary to gain an understanding of IDEM's financial management and

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<sup>1</sup>As of 9/30/93.

<sup>2</sup>Per 9/30/93 Financial Status Report.

<sup>3</sup>Federal share (\$1,353,758 X 90% = \$1,218,382).

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accounting controls. As criteria, we used the Code of Federal Regulations (CFR) Title 40, Parts 30, 31, 33, and 35; Office of Management and Budget (OMB) Circular A-87 and A-102; and the general and special conditions contained in each CA. Except as noted in chapters 2 through 4, our review of the Continental Steel and Galen Myers sites did not disclose any material weaknesses in IDEM's financial management, contract administration, and property management systems.

In planning and performing our audit, we considered relevant aspects of the internal control structure in order to determine our auditing procedures. The significant controls we reviewed included financial management, accounting, contract procurement, contract management, and property management. For these internal controls, we obtained an understanding of the relevant policies and procedures and whether they had been placed into operation. We also relied upon the single audit report, prepared by the Indiana State Board of Accounts, for the IDEM, for the year ending June 30, 1993, to the extent that it was applicable to IDEM's Superfund program. Weaknesses in internal controls are discussed in chapters 2, 3, and 4. Nothing else came to our attention in connection with our review which caused us to believe that IDEM was not in compliance with any of the terms and conditions of the CA, laws, and regulations for those transactions not tested.

We performed our audit in accordance with the Government Auditing Standards, 1988 Revision promulgated by the Comptroller General of the United States and included tests of the accounting records and other auditing procedures as deemed necessary. Audit fieldwork was performed from November 29, 1994, to June 2, 1995.

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### CHAPTER 2

#### IDEM DID NOT SUBMIT TIMELY FINANCIAL REPORTS TO EPA

IDEM did not submit its last three semiannual Cash Transactions Reports (CTR) or the FY 1994 FSR to EPA within Agency prescribed time limits. This untimeliness occurred because IDEM experienced:

- problems implementing a new automated accounting system, and
- an influx of new, inexperienced grant accounting personnel.

As a result, EPA was unable to timely monitor IDEM's Automated Clearing House (ACH) drawdown requests for FY 1994 and actual expenditures for open CAs. EPA needs to ensure that IDEM submits future CTRs and FSRs within prescribed time limits.

#### FINANCIAL REPORTING REQUIREMENTS AND PROCEDURES

As a recipient of EPA assistance agreement funds, IDEM is responsible for providing EPA with CTRs and FSRs within specified timeframes. EPA uses the CTR to monitor cash advanced to recipients and ensure that recipients are not maintaining excessive cash balances. EPA uses the FSR to obtain actual cost expenditure data by site, activity, and operable unit for each CA. The ACH Recipient's Manual requires recipients to submit:

- CTRs within 15 working days following the end of the semiannual period.
- FSRs by December 30 of each year.

Timely financial reports allow EPA to closely monitor recipients' ACH drawdowns and expenditures for open CAs.

IDEM uses document control registers to record and track transactions affecting cash receipts and disbursements. IDEM grant accountants are responsible for posting adjusting entries to document control registers maintained for each CA. The cash accountant uses document control register data to support financial data reported to EPA. According to IDEM officials, it generally takes about two days to prepare,



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review, and submit financial reports to EPA if data in the document control registers are complete and correct. Posting delays and errors in the document control register, however, would cause delays in submitting reports to EPA.

### ACCOUNTING SYSTEM DELAYS

IDEM's conversion from a manual to an automated accounting system contributed to delays in the timely submittal of CTRs and FSRs to EPA. According to IDEM officials, a manual accounting system with document control registers was used before July 1993 and EPA received the required financial reports timely. IDEM's accounting system was partially automated in July 1993. The Superfund Core Program CA was automated in October 1993 and the site specific CAs were automated in September 1994. The conversion automated the grant accountants' document control registers. Since automation began, IDEM has not timely submitted the required financial reports to EPA. For example, CTRs for the periods ending December 31, 1993 and June 30, 1994 were submitted on January 18, 1995; 12 and 6 months late respectively. IDEM submitted the FSR for the period ending September 30, 1994 on April 24, 1995; almost 4 months late. As of July 28, 1995, IDEM had not submitted the CTR for the period ending December 31, 1994.

The State of Indiana Auditor's Office (State Auditor) is responsible for maintaining fiscal control over state and Federal funds awarded to state agencies. The State Auditor maintains the state accounting system. IDEM, in turn, maintains its own separate accounting system. The flow of financial transactions through the state and IDEM accounting systems is as follows:

- Financial transaction initiated by IDEM.
- Claim vouchers, purchase orders, interdepartment bills, or payroll documents are submitted to State Auditor and posted to the state accounting system.
- IDEM receives confirmation of the transaction having been posted and processed in the state accounting system from the State Auditor.

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- Confirmation data are reviewed, by IDEM grant accountants, for accuracy and submitted for posting to IDEM's accounting system.
- Transaction complete.

Financial transactions are posted manually and separately to the state and IDEM accounting systems because the systems are not electronically linked. This results in posting delays between the time the data is first posted to the state system<sup>4</sup> and subsequently posted to IDEM's system. Further delays occur because additional data, including the grant/CA number, are posted to and tracked in IDEM's accounting system. According to IDEM officials, the IDEM accounting system is not user friendly which makes it very time consuming to manually enter data. Thus, IDEM's system did not have current accounting data readily available. As a result of these posting delays, IDEM uses the State Auditor accounting transaction microfiche to obtain the up-to-date data needed to support the financial reports sent to EPA.

IDEM officials stated that, since January 1995, they have made some incremental improvements to the data input process, making it somewhat less cumbersome. IDEM has also moved the time and effort portion of its accounting system to a new computer platform. As a result, the delay in identifying labor charges associated with Superfund cooperative agreements has been reduced from more than 9 months to about 3 months. The goal is to further reduce this time lag to one month. IDEM officials expect to replace their current accounting system in about two years.

### PERSONNEL EXPERIENCE AND TRAINING

An influx of inexperienced grant accounting staff members also contributed to IDEM's reporting delays. IDEM has five grant accountants assigned to monitor the budget and track expenditures on Federal grants/CAs.<sup>5</sup> At the time of our review, four of the five grant accountants had less than one year of Federal grant/CA accounting experience. IDEM's previous grant accounting staff had an average of 4 years experience. The significant loss of experienced personnel

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<sup>4</sup>The transactions are first posted to the state accounting system because the State Auditor has disbursement control over IDEM funds.

<sup>5</sup>A sixth grant accountant in IDEM is responsible for monitoring state grants.

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impacted IDEM's ability to submit timely financial reports to EPA. Inexperienced personnel caused the duties and responsibilities of senior accounting staff members to increase. For example, besides performing their regular duties, IDEM's senior accounting personnel had to provide continual guidance to inexperienced personnel and correct errors they created. Inexperienced personnel hindered IDEM's ability to monitor CA budgets, track expenditures, and submit timely financial reports to EPA.

IDEM did not use Core Program funds to provide Federal grant training to inexperienced grant accountants. EPA established the Core Program CA to provide states with additional funds needed to support non-site specific Superfund activities. Under the terms of the Core Program CA, funds may be used to provide training to personnel supporting Superfund activities. According to IDEM's grant accountants, they did not receive formal training designed to help them effectively monitor CA budgets or track expenditures. The grant accountants stated that their limited grant experience came through on-the-job training. IDEM officials stated that assignment workloads and course availability made it difficult to provide grant accountants with formal grant training. The lack of training hindered IDEM's ability to effectively manage Superfund activities and contributed to financial reporting delays. IDEM should consider using Core Program funds to ensure that inexperienced personnel receive the training needed to effectively manage the Superfund program.

In response to our findings, IDEM officials added two mid-level supervisors to the grant accounting section - one in February 1995 and another in May 1995. These positions are responsible for directly supervising and providing continual on-the-job training to the grant accountants. Also, IDEM is considering providing continual cross-training to inexperienced grant accounting staff members. The goal of the training is to establish and maintain a group of experienced grant accountants.

### CONCLUSION

A combination of problems contributed to IDEM's inability to submit timely financial reports to EPA. IDEM experienced reporting delays because of: (1) problems encountered while implementing a new automated accounting system, (2) the loss of experienced grant accounting staff personnel, and (3) the lack of training provided to inexperienced grant accounting

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personnel. As a result, IDEM's last three semiannual CTRs were submitted 3-12 months late. Therefore, EPA was unable to timely monitor ACH drawdown requests to ensure that IDEM was not maintaining excessive balances of Federal funds during the second semiannual reporting period of FY 1993 and all of FY 1994. EPA was also unable to monitor IDEM's FY 1994 expenditures for open CAs.

### RECOMMENDATIONS

We recommend that Region 5 work with IDEM to:

1. Identify and implement ways to improve the timeliness of IDEM's accounting data and financial reports.
2. Train agency personnel supporting the Superfund program through use of Core Program funds.

### AGENCY COMMENTS AND OIG EVALUATION

Region 5 agreed with the findings and recommendations presented in this chapter. In response to our specific recommendations, Region 5 stated that it will continue to work with IDEM as the Region has for the past several years to help IDEM improve its accounting system (recommendation #1). Region 5 also plans to offer comprehensive training to all its states during Fiscal Year 1996. Additionally, Region 5 will ensure that IDEM is apprised of appropriate financial and grant administration courses offered through the Federal government. Region 5 will also ensure that IDEM identifies a training plan to cover the identified weaknesses in the FY 96 IDEM Core Program workplan (recommendation #2).

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

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### CHAPTER 3

#### IDEM NEEDS TO IMPROVE CONTRACT MANAGEMENT UNDER SUPERFUND COOPERATIVE AGREEMENTS

IDEM had not developed sufficient contract management practices. This occurred because IDEM's contracts manager did not receive:

- contract management training,
- policies and procedures to execute contract management duties, or
- a written position description.

As a result, two Superfund contractors were allowed to continue work at the Galen Myers and Continental Steel sites for about a year after their contracts expired. When the error was discovered, work had to be stopped while new agreements were negotiated.

#### CONTRACTOR PERFORMANCE BEYOND CONTRACT EXPIRATION

Due to reliance on incorrect advice from IDEM's procurement staff, the contracts manager did not realize that the contracts at these sites expired in May 1993. During May 1994, when the contracts manager discovered the error, stop work orders were immediately issued which halted remediation activities at the sites and caused completion schedules to slip. IDEM had to negotiate separate settlements with the two contractors to cover services provided during the expired contract period. A prompt settlement was reached with the Galen Myers site contractor and remediation work continued. However, a final settlement was not reached with the contractor at the Continental Steel site until late January 1995. Work has since resumed at this site under a new contractor.

The Federal Grants Management Handbook<sup>6</sup>, states that:

After a grant is awarded, grantees must perform administrative tasks to ensure contractor performance. As with so many of the procurement

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<sup>6</sup>Grants Management Advisory Service, June 1988.

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standards, the extent of effort in administering contracts depends on factors involved in each contract. The degree of contact and the need for oversight depends on the degree of harm that the grantee will suffer if the contract's terms are not met. As the potential harm increases, administrative supervision should also increase.

Since a majority of IDEM's Superfund CA costs are spent through two state-lead Superfund contracts, currently totaling about \$5,938,000, IDEM should have implemented stringent contract administration and supervision over the Superfund contracts.

### INADEQUATE TRAINING

IDEM's contracts manager had not received sufficient training needed to effectively administer Superfund contracts. The IDEM contracts manager's educational background is in public and environmental health.<sup>7</sup> During the summer of 1991, IDEM created the contracts manager position. The current contracts manager was temporarily detailed to the position, and was eventually made permanent.

Upon assuming the current position, the contracts manager received some Superfund CA training. None of this training directly related to contract management duties and responsibilities. For example, the contracts manager attended the Superfund Response Agreements Seminar; however it did not include contract administration duties and responsibilities. The contracts manager expressed an urgent need to obtain training needed to effectively administer agency contracts. The contracts manager stated she had problems obtaining some training courses because they were not available, or not held at a convenient location.

The contracts manager should have received contract administration training comparable to a contracting officer, as the functions of both positions are similar. EPA's Contract Administration manual<sup>8</sup> (the manual) states that:

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<sup>7</sup>The position's official title is "Environmental Manager II". "Contracts Manager" is the unofficial title.

<sup>8</sup>Office of Administration and Resources Management, November 1991.



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contract administration encompasses all functions relating to a contract from the moment it is awarded until final payment has been made, and the contract is closed out.

It also states that:

In the contracts administration phase, the role of the Contracting Officer is to monitor the contractor's progress, ensure that the contract terms and conditions are being adhered to, and make necessary contract modifications...

The contracts manager's duties are similar to those of a contracting officer as described in the manual. The lack of sufficient and pertinent training prevented the contracts manager from performing contract administration duties as effectively and efficiently as needed. For example, the lack of contract administration training led the contracts manager to rely on incorrect advice provided to her by IDEM's procurement staff. Specifically, she was advised that when a contract is amended, the contract term starts over from the amendment date. Because of this incorrect information, the contracts expired without the contracts manager knowing.

### LACK OF POLICIES AND PROCEDURES

IDEM had not developed and implemented written contract management procedures. According to 40 CFR Part 31, "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments":

when procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds. The State will ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.

The State Board of Accounts recommended, in their June 30, 1993 audit report, that IDEM develop contract monitoring procedures. IDEM responded on September 9, 1994, that:

IDEM Office of Management, Budget, and Administration is in the process of implementing... a contract monitoring system that emphasizes areas of compliance to responsible staff and communicates

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notice of contract expiration within a reasonable period of time...

IDEM also stated that it will document "procedures for approving and paying claims and purchase orders...and otherwise work to keep errors as infrequent as is cost-effective."

However, as of July 1995, about 24 months after the State Board of Accounts' audit report was issued, IDEM had not developed written contract administration and invoice review procedures in compliance with the report's recommendations.<sup>9</sup> IDEM's response to the audit report did not specify target implementation dates. Because IDEM had not developed contract management procedures, the contracts were not efficiently and effectively administered.

During January 1995, IDEM prepared a solicitation requesting proposals for preparation of a procurement and contracts management manual. As of July 28, 1995, IDEM had not yet hired a contractor, but expected to finalize a contract soon. A completed procurement and contracts management manual is expected by December 1995.

### ABSENCE OF WRITTEN POSITION DESCRIPTION

IDEM had not provided the contracts manager with a written position description, although she has held the position for over three years. Position descriptions provide individuals with a general overview of the position duties and responsibilities. The contracts manager needed a written position description to ensure the fulfillment of the full scope of contract administration duties.

The manual states that some contract administration duties are delegated to technical contract managers designated as project officers, work assignment managers, delivery order officers, administrative delivery order officers, and delivery order project officers. Because contract managers are entrusted with much of the contractor oversight required, an understanding of the principles and duties involved in contract administration is essential. The contract manager's role is one of monitoring contract performance from both a technical and financial standpoint. The contract manager also verifies monthly vouchers for payment.

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<sup>9</sup>IDEM had created a contractor invoice review sheet.

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If IDEM had provided the contracts manager with a written position description from the beginning, the contracts manager might have been more familiar with contract management duties and responsibilities. Because IDEM did not provide the contracts manager with a written position description, the contracts manager was not familiar with the full scope of contract management duties. As a result, the contracts manager was not executing contract management duties needed to efficiently and effectively administer the expired Superfund CA contracts.

In June 1995, after completion of our audit fieldwork, IDEM provided a written position description for the contracts manager.

### CONCLUSION

IDEM had not developed sufficient contract administration practices over contracts awarded using Superfund CA funds. This occurred because IDEM did not provide the contracts manager with (1) adequate contracting training, (2) policies and procedures to execute contract administration duties, and (3) a written position description. As a result, two contractors were allowed to continue work at the Continental Steel and Galen Myers sites for about a year after the contracts expired.

### RECOMMENDATIONS

We recommend that Region 5 request IDEM to:

1. Ensure that its contracts manager is adequately trained and qualified to effectively administer Federally funded contracts.
2. Develop a Procurement and Contract Management Manual.

### AGENCY COMMENTS AND OIG EVALUATION

Region 5 agreed with the findings and recommendations presented in this chapter. Region 5 will be offering comprehensive training to all its states during early FY 96 and will ensure that contracts management is part of this training and that appropriate IDEM personnel attend (recommendation #1). Also, Region 5 will make the development of a Procurement and Contract Management Manual a

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deliverable under IDEM's FY 96 Core Program workplan  
(recommendation #2).

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

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### CHAPTER 4

#### IDEM DID NOT ADEQUATELY SAFEGUARD SUPERFUND ASSETS

IDEM did not have sufficient property management controls to safeguard Superfund Core Program assets. Core Program assets were not adequately safeguarded because IDEM did not:

- have sufficient property management controls and procedures to identify equipment purchased with Core Program funds,
- timely report fixed asset purchases,
- conduct physical inventories, and
- comply with Federal and state accounting procedures for maintaining property records.

As a result, IDEM did not adequately safeguard assets against loss, theft, or improper use. EPA needs to ensure that IDEM: (1) complies with regulatory guidance, and (2) develops property management controls to adequately safeguard Superfund assets.

#### PROPERTY CONTROL REQUIREMENTS

Recipients of Federal assistance agreement funds must follow Federal and state property management procedures for identifying assets. The State Auditor is responsible for maintaining the official State of Indiana property records. These records must be maintained in accordance with 40 CFR 35.6700 (c) (1) and (3). Under this regulation, the records must include the property description and its source, including the assistance agreement number.

The State Auditor maintains and updates the state master inventory list; a record of fixed assets.<sup>10</sup> Fixed assets valued over \$5,000 are posted to the inventory list at their original cost. For assets valued from \$500 to \$5,000, agencies have the option of maintaining a separate asset control system, or including the assets on the state master inventory list with a \$0 value. IDEM's fixed assets valued

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<sup>10</sup>IDEM identifies fixed assets as any land, buildings, improvements other than buildings, construction in progress, and equipment purchases.

## Indiana Superfund Cooperative Agreements

less than \$5,000 are included on the state master inventory list.

IDEM is required to follow the fixed asset property management procedures for reporting equipment purchases and dispositions as contained in the State of Indiana accounting manual. The manual requires agencies to:

- track fixed assets from initial purchase to final disposition.
- submit weekly fixed asset inventory reports, summarizing purchases and dispositions, to the State Auditor.

The manual allows state agencies to submit the reports less often based on their purchasing pattern. These reports are used to update the state master inventory list. The reports include the asset description, cost, and state tag number. IDEM assigns a unique state tag number to all fixed assets upon receipt. The tag number includes a three digit prefix (495 for IDEM) which identifies the state agency owning the fixed asset. The tag number is used to identify the owning agency and is attached to all fixed assets.

The state accounting manual also requires agencies to perform a 100 percent fixed asset physical inventory annually. The manual states that agencies should compare the results of the physical inventory to the master inventory list for accuracy. The Indiana State Board of Accounts performs annual audits of IDEM, including a limited fixed asset physical inventory. This limited inventory does not, however, relieve state agencies from performing the required annual fixed asset inventory.

Federal requirements in 40 CFR 35.6700 (c) (8) call for recipients to maintain information on the disposition of property. Indiana requires state agencies to report, on the weekly inventory reports, asset disposition information to the State Auditor. Based on information contained in the inventory reports, the State Auditor semi-annually issues a new master inventory list to state agencies. State agencies are required to review the new inventory list for accuracy and report any discrepancies.

### PROPERTY MANAGEMENT CONTROLS AND PROCEDURES

IDEM's property records were not adequate to identify property purchased with Core Program funds. According to 40

## Indiana Superfund Cooperative Agreements

CFR 35.6700 (c)(3), recipients of assistance agreement funds are required to identify, in the inventory records, the funding source of property, including the assistance agreement number. IDEM's master inventory list, however, did not include the assets funding source. Without adequate property records, we were unable to differentiate between assets funded through the Core Program CA and other sources. Also, without adequate property records, we could not verify whether Core Program funded assets were safeguarded against loss, theft, or improper use.

According to IDEM officials, they often used memory to differentiate between assets funded by the Core Program and those funded by other sources on the master inventory list. When memory fails, the funding source can be found in the requisition files. These files contain a copy of the purchase request, purchase order, and the receiving report all of which identify the asset funding source. However, it is often difficult and time consuming to identify the correct requisition file because they are stored by the initiating office. IDEM needs to develop better property control procedures designed to easily identify fixed asset funding sources.

IDEM officials agreed that a better system is needed to identify fixed assets funding source. As of January 1995, IDEM was investigating the possibility of using the first two characters of the state asset number to identify the assets funding source. The state's accounting system allows agencies to use these characters any way they choose. However, IDEM was not using them for any specific purpose. Using these characters to identify the funding source would enable IDEM to quickly and easily identify Core Program funded assets.

### TIMELY REPORTING FIXED ASSET PURCHASES

Between FY 1990 and FY 1993 IDEM purchased over \$124,000 in equipment with Core Program funds. IDEM was not timely reporting fixed asset purchases to the State Auditor. This occurred because IDEM was not following the state accounting manual property management and accounting procedures for reporting fixed asset purchases. As a result, we were unable to identify IDEM's fixed assets purchased with Core Program funds.

The manual requires state agencies to submit weekly fixed asset inventory reports to the Auditor's Office to update the



## Indiana Superfund Cooperative Agreements

master inventory list. IDEM's purchasing administrator is responsible for submitting the weekly reports to the Auditor's Office. These reports are used to update the master inventory list. Because of the low volume of purchases, IDEM was submitting its reports quarterly. However, the agency move in April 1994 put the purchasing administrator behind schedule in submitting the inventory reports to the State Auditor. According to the purchase administrator, IDEM is about a year behind schedule in submitting inventory reports to the State Auditor.

IDEM's purchasing administrator has maintained a database file of all agency purchases made during the last year. He said once the agency performs a physical inventory in July 1995, they will resume submitting quarterly reports to the State Auditor. IDEM needs to promptly report fixed asset purchases to ensure the master inventory list remains current and minimize the possibility of loss, theft, or improper use.

### ANNUAL PHYSICAL INVENTORIES

IDEM was not conducting annual physical inventories of fixed assets. According to IDEM officials, it has been over 18 months since an inventory was performed. Also, IDEM officials were unable to furnish the results of the last inventory. As a result, assets purchased since the last inventory were subject to loss, theft, or improper use. The state accounting manual requires agencies to perform an annual 100 percent fixed asset physical inventory. The manual also requires state agencies to reconcile the inventory results to the master inventory list and report any discrepancies to the State Auditor.

IDEM officials attributed the inventory delay to the 1994 agency move. However, according to the State Board of Accounts audit report, for the period July 1, 1992 to June 30, 1993, IDEM was not performing annual inventories prior to the move. The State Board of Accounts recommended that IDEM complete a physical inventory to ensure that the fixed asset inventory was up to date and accurate. In response to our findings, IDEM officials have scheduled a complete physical inventory of fixed assets for July 1995.

### PROPERTY RECORD MAINTENANCE PROCEDURES

IDEM's property control records were not adequate to identify the fixed assets funding source or to account for the

## Indiana Superfund Cooperative Agreements

disposal of property. This occurred because IDEM did not follow Federal and state property management procedures. As a result, the state master inventory list was not updated to reveal actual fixed assets on hand.

IDEM needs to coordinate the disposal of assets with the State Auditor to ensure that the state inventory list is updated to delete items no longer in the agency possession. If IDEM does not follow state disposal procedures, assets are subject to loss, theft, or improper use. The August 19, 1994 state master inventory list did not comply with Federal and state requirements because it did not identify the funding source, percentage of EPA interest, or disposition information. For example, IDEM's Office of Superfund conducted a physical count of all fixed assets in their section, prior to the agency move during April 1994. During the count, two cameras were found to be damaged beyond repair and were described as "trashed" on the count sheet. The cameras were subsequently thrown out without reporting the disposal to the State Auditor. The state accounting manual requires state agencies to report fixed asset dispositions to the State Auditor so the items can be deleted from the master inventory list. IDEM's Office of Superfund section chief said they were not aware of any official agency procedures to report the disposition of property. As a result, the assets remained on the state master inventory list although they were no longer in IDEM's possession.

As a result of our raising this issue, IDEM officials requested and received copies of Indiana procedures related to disposition of property. They have made employees aware of the proper means of disposing of property and the related reporting requirements.

### CONCLUSION

IDEM did not adequately safeguard fixed assets purchased with Core Program funds. This occurred because IDEM did not: (1) have sufficient property management controls and procedures to identify equipment purchased with Core Program funds, (2) timely report fixed asset purchases, (3) conduct physical inventories, and (4) comply with Federal and state accounting procedures for maintaining property records. As a result, IDEM did not ensure that fixed assets purchased with Core Program funds were adequately safeguarded against loss, theft, or improper use.

## Indiana Superfund Cooperative Agreements

### RECOMMENDATIONS

We recommend that Region 5 request IDEM to:

1. Develop a method to easily identify Superfund Core Program funded property.
2. Ensure that all fixed assets purchased with Federal funds are timely reported to the State Auditor and included in the State's inventory system.
3. Conduct annual physical inventories and reconcile the results to the state master inventory list.

### AGENCY COMMENTS AND OIG EVALUATION

Region 5 agreed with the findings and recommendations presented in this chapter. Region 5 and IDEM will prepare an activity for the FY 96 Core Program workplan to develop a property management procedures manual that includes the appropriate controls in place for Superfund property (recommendation #1). Region 5 will work with IDEM to develop an activity under the FY 96 Core Program cooperative agreement to ensure that IDEM begins maintaining a property inventory system that meets the requirements of the state accounting manual (recommendation #2). Also, Region 5 will develop an activity under the FY 96 Core Program workplan to ensure that IDEM begins conducting physical inventories that meet the requirements of 40 CFR Part 35.

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

CHAPTER 5

IDEM DID NOT COMPLETE CORE PROGRAM ACTIVITIES

Region 5 was not holding IDEM accountable for completing Core Program tasks. IDEM did not complete some activities identified in the FY 1994 Core Program workplan. Region 5's monitoring of IDEM's progress in completing Core Program activities was hindered because activities were not assigned specific completion dates. As a result, Region 5 did not know whether IDEM was satisfying the Core Program CA requirements. Between 1988 and 1993, EPA awarded IDEM more than \$3.5 million in Core Program funds. Region 5 needs to improve its oversight of these funds and increase IDEM's accountability for planned tasks.

CORE PROGRAM OBJECTIVES

EPA developed the Core Program CA concept to provide each state with funds needed to conduct Superfund implementation activities that were not directly identifiable to specific sites. Core Program funds are generally used to fund training, non-site specific property purchases, and payroll expenses of state personnel who support Superfund activities. IDEM and Region 5 negotiate specific activities that will be accomplished using Core Program funds.

IDEM's Core Program listed eight major program elements:

- Program management and supervision,
- Interagency coordination,
- Contract administration,
- Legal assistance,
- Staff development and training,
- Program administration and financial management,
- Automation and data management, and
- Clerical support.

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Within each program element, the CA lists various activities which IDEM will perform, including a schedule and objective for each activity.

### COMPLETION OF CORE PROGRAM ACTIVITIES

IDEM did not complete some activities listed in the Core Program workplan, as shown in table 2. These included creating contract management procedures, developing a project management tracking system, and training staff. The effect of not completing these activities was seen in earlier chapters of this report. For example, as shown in chapter 3, the lack of contract management procedures, combined with the lack of training for the contracts manager, resulted in two contractors being allowed to work after their contracts had expired. The overall result of not completing these tasks has been to impair IDEM's ability to effectively manage the Superfund program.

Region 5 needs to hold IDEM accountable for completing scheduled activities and monitor the completion of the activities. IDEM and Region 5 conduct semi-annual Superfund reviews to discuss CA's progress and accomplishments. These reviews focus mainly on the remedial activities and accomplishments of site specific CAs. Region 5 and IDEM personnel stated that during the reviews Core Program activities and accomplishments are only briefly discussed. During the reviews IDEM and Region 5 need to conduct more extensive discussions of Core Program activities and accomplishments. These discussions will allow both agencies the opportunity to evaluate whether Core Program funds are being used effectively and efficiently to support the Superfund program.

Also, as shown in table 2, many of the activities do not have assigned completion dates. Not assigning completion dates makes it difficult for Region 5 to evaluate IDEM's progress in completing activities.

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**Indiana Superfund Cooperative Agreements**

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**Table 2**  
**Superfund Core Program Cooperative Agreement**  
**Status of Fiscal 1994 Core Program CA Workplan Activities**

Core Program CA Activities	Completion Date	Status
Direct the activities necessary for contractor selection and contract management.	On-Going.	Not complete. IDEM had not developed contract management procedures.
Develop and implement an integrated site information tracking system.	On-Going.	Not complete.
Identify training needs, develop appropriate training plans, and assign training for subordinate staff.	On-Going.	Not complete. IDEM did not schedule needed contract administration and grant accounting training to staff members.
Complete and submit a Financial Status Report (FSR).	Post marked within 90 days after the end of the annual budget period.	FY 1994, FSR not submitted to EPA on time.
Develop, implement, and maintain adequate reports and financial records in conformance with fiscal audit procedures.	Summarize information on Quarterly Reports.	Not complete. IDEM's property inventory records did not identify Core funded property.

## Indiana Superfund Cooperative Agreements

In May 1995, Region 5 and IDEM conducted the mid-year review of IDEM's Superfund CAs. At that time, IDEM and Region 5 reviewed the status of current Core Program tasks and established specific completion dates where possible. IDEM officials told us that they will also include proposed completion dates for Core Program tasks included in IDEM's FY 96 application.

### CONCLUSION

Region 5 would improve its ability to monitor Core Program activity accomplishments by requesting that IDEM review scheduled activities and assign target completion dates whenever possible.



Indiana Superfund Cooperative Agreements

APPENDIX 1  
Page 1 of 3

REGION 5 RESPONSE TO DRAFT REPORT



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

**MAY 18 1985**

REPLY TO THE ATTENTION OF

R-19J

**MEMORANDUM**

**SUBJECT:** Region 5 Response to the Office of Inspector General  
Draft Report on Indiana Superfund Cooperative Agreements  
Report No. E5FGF5-05-0047

**FROM:** Valdas V. Adamkus  
Regional Administrator

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

Thank you for the opportunity to respond to the draft report on the Indiana Department of Environmental Management's (IDEM) administration of cooperative agreements. Our response to each of the recommendations that appear in the report is attached.

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

  
Valdas V. Adamkus

Attachment

## Indiana Superfund Cooperative Agreements

APPENDIX 1  
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### **REGION 5 RESPONSE - DRAFT AUDIT REPORT NO. E5FG5-05-0047**

In general, we agree with the substance of the recommendations. However, since the issues reported on pertain to accounting and administrative functions, we believe the report was incorrect in recommending the Office of Superfund to take the corrective actions.

**RECOMMENDATION** - Region 5, Office of Superfund [OSF] should work with IDEM to identify and implement ways to improve the timeliness of IDEM's accounting data and financial reports.

**RESPONSE** - Region 5 will continue to work with IDEM to develop an action plan to correct the deficiencies cited in the audit report. The Region has been working with IDEM for several years in order to help them improve their accounting system. During that time, IDEM was in the process of automating its accounting system but ran into several problems and delays which they claim to have been beyond their control. IDEM has informed us that once the conversion from a manual to an automated system took place, there was a learning curve delay. However, IDEM has informed us that they recognize that they need to improve their accounting and financial data systems.

**RECOMMENDATION** - Region 5, OSF should work with IDEM to train agency personnel supporting the Superfund program through use of Core Program funds.

**RESPONSE** - Region 5 agrees that IDEM needs to have the appropriate administrative training for its grants and administrative staff. IDEM has had a tremendous personnel turnover in this area over the last year. The Region plans to offer comprehensive training to all its states during Fiscal Year 1996. Additionally, Region 5 will ensure that IDEM is apprised of appropriate financial and grant administration courses offered through the Federal government. Region 5 provides training funds through the Core Program Cooperative Agreement and will ensure that IDEM identifies a training plan to cover the identified weaknesses in the FY 96 IDEM Core Program workplan.

**RECOMMENDATION** - Region 5, OSF should direct IDEM to ensure that its contracts manager is adequately trained and qualified to effectively administer Federally funded contracts.

**RESPONSE** - Region 5 is committed to building state

capability and now recognizes that IDEM took on its two first State-lead Fund financed Superfund projects without having all the contracts management personnel/expertise in place. As mentioned above, Region 5 will be offering comprehensive training to all its states during early FY 96 and will ensure that contracts management is part of this training and that the appropriate IDEM personnel attend.

**RECOMMENDATION** - Region 5, OSF should direct IDEM to develop a Procurement and Contract Management Manual.

**RESPONSE** - Region 5 will make this initiative a deliverable under IDEM's FY 96 Core Program workplan.

**RECOMMENDATION** - Region 5, OSF should direct IDEM to develop a method to easily identify Superfund Core Program funded property.

**RESPONSE** - Region 5 and IDEM will prepare an activity for the FY 96 Core Program workplan to develop a property management procedures manual that includes the appropriate controls in place for Superfund property.

**RECOMMENDATION** - Region 5, OSF should direct IDEM to ensure that all fixed assets purchased with Federal funds are timely reported to the State Auditor and included in the State's inventory system.

**RESPONSE** - Region 5 will work with IDEM to ensure that it begins maintaining a property inventory system that meets the requirements of the state accounting manual. This will be a documented activity under the FY 96 Core Program Cooperative Agreement.

**RECOMMENDATION** - Region 5, OSF should direct IDEM to conduct annual physical inventories and reconcile the results to the state master inventory list.

**RESPONSE** - Region 5 will work with IDEM to ensure that they begin conducting property inventories that meet the requirements of 40 CFR Part 35. This will be a documented activity under the FY 96 Core Program workplan.

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## Indiana Superfund Cooperative Agreements

APPENDIX 2  
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### ABBREVIATIONS

ACH	Automated Clearing House
CA	Cooperative Agreement
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
CFR	Code of Federal Regulations
CTR	Cash Transactions Report
EPA	U.S. Environmental Protection Agency
FSR	Financial Status Report
IDEM	Indiana Department of Environmental Management
OIG	Office of Inspector General
OMB	Office of Management and Budget
State Auditor	State of Indiana Auditor's Office

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Indiana Superfund Cooperative Agreements

APPENDIX 3  
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DISTRIBUTION

Inspector General (A-109)

Regional Administrator, Region 5

Region 5 Follow-up Coordinator (Chief, FAS) (MFA-10J)

Region 5 Public Affairs (P-19J)

Region 5 Library

Agency Follow-up Coordinator (PM-208);  
Attention: Assistant Administrator for the Office of  
Administration and Resources Management

Agency Follow-up Coordinator (H-3304);  
Attention: Director, Resources Management

Associate Administrator for Regional Operations  
and State/Local Relations (H-1501)

Headquarters Library (PM-211A)

U.S. General Accounting Office  
Attention: Greg Kosarin

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