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WASHINGTON, D.C. 20548

RESOURCES, COMMUNITY,
AND ECONOMIC DEVELOPMENT
DIVISION

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OCTOBER 19, 1983

RELEASED

The Honorable John Dingell
Chairman, Committee on Energy
and Commerce
House of Representatives



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The Honorable James Scheuer
Chairman, Subcommittee on Natural
Resources, Agriculture Research and
Environment
Committee on Science and Technology
House of Representatives

The Honorable Mike Synar
Chairman, Subcommittee on Environment,
Energy and Natural Resources
Committee on Government Operations
House of Representatives

Subject: Evaluation of the Environmental Protection Agency's
Inspector General Audit of Superfund Expenditures
and Implementation of the Inspector General's
Recommendations (GAO/RCED-84-31)

On the basis of a February 18, 1983, joint letter from the Chairman, Subcommittee on Environment, Energy and Natural Resources, House Committee on Government Operations, and the Chairman, Subcommittee on Natural Resources, Agriculture Research and Environment, House Committee on Science and Technology; and a February 21, 1983, letter from the Chairman, House Committee on Energy and Commerce; and subsequent discussions with the Chairmen's offices we reviewed the Environmental Protection Agency's (EPA's) Inspector General's (IG's) audit of fiscal year 1982 expenditures from the Hazardous Substances Response Trust Fund (commonly referred to as Superfund). Specifically, we reviewed the IG's objective, scope, and methodology in performing the audit; and determined what corrective actions EPA has taken as a result of the report's findings and recommendations.

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We found that the IG's scope, objective, and methodology were acceptable. The only exception was that about \$22.5 million in interagency agreements relating to Superfund expenditures was not audited. The IG's Chief, Internal Audit Staff, told us that this was not done because of time constraints and other priorities. He said that most of the audits are planned to be completed in fiscal year 1984.

We also found that EPA has begun to implement corrective actions on the IG recommendations but, because of the time needed to fully implement the actions, it is too early to determine how effective the actions will be.

The Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) provides for liability, compensation, cleanup, and emergency response for hazardous substances released into the environment and uncontrolled and abandoned hazardous waste sites. To fund cleanup actions, the act established Superfund. The \$1.6-billion fund will be collected over 5 years by imposing a tax (\$1.38 billion) on the manufacturers, producers, and importers of petroleum, petroleum products, and certain chemicals, and from general tax revenue (\$220 million).

CERCLA also requires the EPA IG to audit payments, obligations, reimbursements, or other uses of the Superfund to ensure that the fund was being properly administered. The IG's fiscal year 1982 report, dated March 31, 1983, disclosed that the EPA obligated about \$181 million of Superfund monies. The IG found that about \$25 million was for personnel, transportation, and related support services and about \$156 million was for contracts, grants, and interagency agreements. The IG also found that about \$53 million of the obligations was insufficiently supported and about \$176,000 was not properly charged to the Superfund. Because of these problems he recommended changes to EPA's accounting and financial management practices.

The IG audit was performed by its headquarters and five divisional staffs. These six groups were responsible for auditing EPA's 10 regional offices, 3 laboratories, the National Enforcement Investigations Center in Denver, Colorado, the financial management office in Las Vegas, Nevada, and headquarters. The results of these 16 audits were reported directly to the audited office and subsequently consolidated into the IG's March 31, 1983, overall report to the Congress on Superfund expenditures.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to determine the reasonableness of the IG's objective, scope, and methodology in performing the audit and the status of EPA's efforts to implement the recommendations. Most of our audit work was performed at EPA's headquarters in Washington, D.C., and the IG's Chicago Division office.

We selected the IG headquarters and Chicago Division because the headquarters staff was responsible for overall audit management and the audit of headquarters obligations. The IG's Chicago Division was selected because it audited obligations made by EPA's Chicago and Kansas City regional offices and the Cincinnati Environmental Research Center (one of EPA's three laboratories).

We also met with auditors in the IG's Atlanta and New York Division offices to discuss their Superfund sampling scope and methodology. We discussed by telephone similar information with IG division officials in Philadelphia and San Francisco.

We met with EPA financial and program officials at headquarters and the Chicago region concerning the IG's audit and EPA's implementation of resulting recommendations. We also had telephone conversations with officials in other EPA locations audited by the IG to discuss implementation of the IG's recommendations.

To determine the adequacy of the IG's objective, scope, and methodology we reviewed CERCLA's financial, accounting, and audit requirements. We also reviewed applicable Executive orders and the National Oil and Hazardous Substances Contingency Plan, which outline distribution and use of Superfund monies and how those funds should be audited. We reviewed the IG's audit guide for adequacy of coverage of all Superfund related activities and operations and for compliance with GAO's "Standards For Audit Of Governmental Organizations, Programs, Activities, And Functions." We examined the IG's working papers prepared by the headquarters and the Chicago Division staff to check for compliance with the IG's audit guide instructions, government audit standards including evidence, content, completeness, and documentation.

To determine whether the recommendations in each report were adequately supported, we reviewed the IG's working papers for the four locations--headquarters, Chicago, Kansas City, and Cincinnati Environmental Research Center. Likewise, we compared the IG's March 31, 1983, consolidated report to supporting working papers and the 16 individual report findings to determine whether the consolidated report appropriately incorporated individual report findings.

To determine whether the audits had been performed at other agencies receiving Superfund money, we interviewed by telephone the IG or internal audit officials of the Departments of Defense, Army, Commerce, Energy, Health and Human Services, Interior, Justice, and Transportation; the Corps of Engineers; the Federal Emergency Management Agency; and the Library of Congress.

At your request, we did not obtain agency comments. However, the matters presented in this report were discussed with agency officials and their comments are incorporated, where appropriate.

Our work was conducted from February 1983 to June 1983. Except as noted above, our review was conducted in accordance with generally accepted government auditing standards.

THE IG'S OBJECTIVE, SCOPE, AND METHODOLOGY

The IG met the audit scope and objective requirements dictated by section 111(k) of CERCLA and applied appropriate methodologies. CERCLA requires that the IG's scope include audit of payments, obligations, reimbursements, or other uses of the Superfund to ensure that the fund is being properly administered and claims are being appropriately considered. In performing its audit, the IG sampled transactions amounting to \$123 million or 68 percent of the \$181 million obligated to Superfund and determined (1) compliance with applicable laws, regulations, and guidelines, (2) the adequacy of internal controls to ensure reliability of accounting and management records, and (3) the accuracy and fairness of financial reports on EPA's portion of Superfund. However, of the \$123 million sampled about \$22.5 million in Superfund interagency agreements was not audited by EPA's or the receiving and obligating agencies' IGs.

During fiscal year 1982, EPA transferred \$22.5 million from Superfund to other federal agencies to carry out their responsibilities under CERCLA. Neither EPA nor other agencies' IGs had audited these funds primarily because of time constraints and other priorities. We discussed this omission with the IG's Chief, Internal Audit Staff, and he has since requested the IGs of agencies receiving or obligating money from Superfund to perform the required audits.

The following schedule summarizes the agencies having inter-agency agreements with EPA for Superfund activities and the amount of Superfund money available to them in fiscal year 1982.

Schedule of Superfund Interagency Agreements
for Fiscal Year 1982

<u>Federal agency</u>	<u>Obligations</u>
Corps of Engineers	\$12,962,850
Defense Contract Audit Agency	500,000
Department of the Army	275,000
Department of Commerce	798,000
Department of Energy	602,500
Department of Health and Human Services	3,425,555
Department of the Interior	75,000
Department of Justice	2,000,000
Department of Transportation	1,696,244
Federal Emergency Management Agency	50,000
Library of Congress	21,300
Miscellaneous Support Services	<u>89,453</u>
	<u>\$22,495,902</u>

As of March 31, 1983, the IG had not performed these audits nor had arrangements been made with the appropriate IGs or the internal audit staffs to perform the audits. However, the IG's March 31, 1983, report included recognition that those funds were not audited and ". . . may be subject to future audits to determine that the costs are reasonable, allowable and allocable in accordance with the terms of the agreement. . . ."

We discussed the need for these audits with the Chief, Internal Audit Staff, who agreed that EPA's IG should have taken the responsibility to have these audits performed. However, he stated that his staff had made telephone contacts with three agencies' IGs or internal audit staffs in late November 1982, requesting audits of Superfund monies at these agencies. An EPA IG official stated that they initially intended to contact all agencies involved beginning with those agencies receiving large Superfund dollar allocations but higher priority work precluded their making any further contacts. Each of the officials contacted expressed difficulty in meeting the March 1, 1983, completion deadline requested by the EPA IG. As a result, the Chief, Internal Audit staff, told us that since the audits could not be completed in time to incorporate the results in the fiscal year 1982 report, the audits were not done.

As a result of our discussion with the Chief, Internal Audit Staff, the EPA IG, during late June and early July 1983, sent letters to the appropriate audit officials of agencies receiving Superfund money requesting that these audits be performed. As of July 29, 1983, the Chief, Internal Audit Staff, told us that most of the agencies responded that they would complete the audits by March 31, 1984, but none have yet started work.

IMPLEMENTATION OF THE
INSPECTOR GENERAL'S RECOMMENDATIONS

The IG's March 31, 1983, report identified problems in accounting for charges made to the Superfund and recommended ways to correct these problems. For the fiscal year 1982 CERCLA obligations, these problems resulted in the IG's (1) identifying \$53 million for which inadequate documentation existed to allocate charges to the Superfund and (2) questioning \$176,000 which was incorrectly charged to the Superfund.

EPA has agreed with the IG's recommendations and has begun taking corrective actions. However, it is too early to determine how effective these actions will be in resolving the problems identified, and their full impact on the Superfund program is not yet known.

IG identified problems

According to the IG's report, prior to CERCLA, EPA's accounting system was geared to account for costs on an organizational basis. The CERCLA program created new and unique cost accounting requirements, which previously were not necessary. CERCLA required that Superfund be charged only for costs that are "reasonably necessary for" and "incidental to" the implementation of CERCLA. This requirement necessitated enhancements to EPA's existing accounting system and procedures to provide job-costing capability. In response to these new requirements and the recommendations contained in the IG's fiscal year 1981 audit report on Superfund, EPA developed and issued agencywide guidance to ensure that: (1) managers made appropriate and uniform decisions on which costs are "reasonably necessary for" and "incidental to" the implementation of CERCLA and (2) supplementary records were maintained to evidence and justify such decisions. This guidance document, entitled "Superfund Charging Policies," dated June 17, 1982, specifically addressed the charging of personnel compensation and benefits and support costs to Superfund.

According to the IG, the new policies were to be implemented in the fourth quarter of fiscal year 1982. Because of the absence of policy to identify Superfund costs precisely during the first

three quarters of the year, the new guidance did not have a significant effect on Superfund charges during fiscal year 1982. The IG found that about \$19 million in personnel compensation and benefits and support costs required further analysis and documentation by EPA to substantiate the propriety of the charges. The IG also questioned \$52,000 in these categories that were not related to CERCLA and which should have been charged to other Agency programs.

In addition, the IG reported that controls over recording of contract payments, which were not addressed by the agencywide guidance, did not ensure charges were made to the correct appropriations and accounts. According to the report, it was frequently not possible for the finance offices to record accurately payments made under contracts funded from more than one appropriation or account because EPA did not require contractors' invoices to contain sufficient information to correctly charge the Superfund. This was prevalent in contracts that contained both Superfund and non-Superfund appropriations and accounts. The IG found that contractual services costs totaling about \$34 million needed further documentation to substantiate that: (1) allocations of costs were equitable (\$362,000) and (2) the correct appropriation or account was charged for 17 multiprogram funded contracts (\$33.4 million). The IG also questioned contract costs totaling \$89,000, which were incorrectly charged to the Superfund.

In addition to the fiscal accountability issue, the IG reported that increased management attention was needed in the areas of discounts lost and cooperative agreements with states participating in the Superfund program. Discounts offered for prompt payment were lost because contractor invoices were not processed on time. These discounts were lost because the invoices were not certified on time or the finance office had delayed payment processing. In addition, the IG identified problems with the procedures for reporting cooperative agreements. The payment vouchers submitted by the recipient of a cooperative agreement did not contain sufficient information to ensure that the correct Superfund appropriation and account were charged. The IG questioned cooperative agreement costs totaling \$35,000.

EPA corrective actions have begun

EPA has begun to rectify the personnel compensation and benefits problems identified in the March 31, 1983, report. Subsequent to the IG's report, EPA has revised its timekeeping manuals to incorporate all the policies and procedures from the June 1982 guidance document and the IG's recommendations and provided training for Superfund timekeeping. In April 1983, EPA

began to verify Superfund personnel compensation and benefits costs that were being charged on a biweekly basis and those that had been charged since the beginning of the fiscal year. EPA is comparing the Superfund time charges on employee timesheets claimed in fiscal year 1983 with the hours in the EPA's accounting system, and it is correcting any differences. As of August 15, 1983, however, EPA had not completed this reconciliation for all the biweekly pay periods before April 1983.

EPA has also undertaken corrective measures to resolve how support service costs are allocated. In November 1982, EPA clarified the procedures outlined in the June 1982 guidance document for allocating fiscal year 1983 regional support service costs to Superfund. In December 1982, EPA requested the regional offices to develop and submit for approval their Superfund support cost allocation plan to determine compliance with the new guidance. By July 30, 1983, all 10 regional support allocation plans had been approved. As the plans were approved, EPA has been reviewing the applicability of the support costs for fiscal year 1983. EPA is also reviewing the fiscal year 1982 support costs that lacked adequate documentation, and it intends to make appropriate adjustments.

In March 1983, EPA issued guidance to improve the recording of contract costs in the accounting records to provide full accountability of contract obligations and fund disbursements. This guidance will apply to all contracts awarded after March 1983, and EPA has required that these provisions be incorporated into existing contracts with the next funding actions or modifications. EPA also plans to review the \$34 million of the fiscal year 1982 contract costs lacking sufficient documentation and intends to make all appropriate and feasible adjustments.

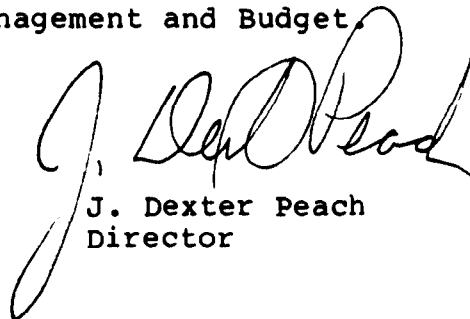
EPA has implemented corrective measures concerning discounts lost in order to rectify the problems found by the IG. The IG's fiscal year 1981 report first noted discounts lost as a problem and EPA took some corrective actions. During 1982, the agency issued prompt payment procedures, which they believed would eliminate overdue payments to contractors. The Prompt Payment Act (31 U.S.C. 1801), effective on October 1, 1982, also heighten the need to correct this problem as agencies were assessed interest penalties for late payments. In fiscal year 1983, EPA has continued to implement procedures to clarify the accounting for lost discounts and revised its operating manuals.

EPA has also made changes in recording payments under cooperative agreements. Even though these costs were correctly claimed against the Superfund in fiscal year 1982, the IG found

the reporting practices were deficient. In March 1983, EPA issued guidance to correct the reporting practices. EPA directed the recipients of new cooperative agreements and amendments to provide documentation on how they should report funds drawn against the Superfund. Since then, EPA has been implementing this guidance.

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As arranged with your offices, unless you publicly release its contents earlier, we will make this report available to other interested parties 30 days after the issue date. At that time copies of the report will be sent to appropriate congressional committees; the Administrator, Environmental Protection Agency; and the Director, Office of Management and Budget.



J. Dexter Peach
Director