



## Memorandum

Date JUN -2 1997

From Deputy Inspector General  
for Audit Services

Subject Superfund Financial Activities at the Agency for Toxic  
Substances and Disease Registry for Fiscal Year 1995  
(CIN: A-04-96-04575)

To

Barry L. Johnson, Ph.D.  
Assistant Administrator  
Agency for Toxic Substances and Disease Registry

The attached final report provides you with the results of our audit of the Agency for Toxic Substances and Disease Registry (ATSDR) Superfund Financial Activities for Fiscal Year 1995.

The audit showed that ATSDR generally administered Superfund monies in accordance with applicable legislation and regulations. However, the report contains recommendations which will, if effectively implemented, strengthen management controls over three areas: Administrative and Support Costs; Grantee Audits; and the Minority Contractor Utilization Report .

In its written response to a draft of our report, ATSDR concurred with our recommendations regarding Administrative and Support Costs and the Minority Contractor Utilization Report, but disagreed with our recommendations related to grantee audit reports. We have summarized ATSDR'S response in our discussion of each audit finding and have presented additional comments clarifying our position. The full text of ATSDR'S response is included as the Appendix to the report.

We would appreciate being advised on the status of corrective actions within 60 days of the date of this memorandum. Should you wish to discuss the issues raised in our report, please call me or have your staff contact Joseph J. Green, Assistant Inspector General for Public Health Service Audits, at (301) 443-3582. To facilitate identification, please refer to Common Identification Number (CIN) A-04-96-04575 in all correspondence relating to this report.

  
Thomas D. Roslewicz

Attachment

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**SUPERFUND FINANCIAL ACTIVITIES AT  
THE AGENCY FOR TOXIC SUBSTANCES  
AND DISEASE REGISTRY FOR FISCAL  
YEAR 1995**



**JUNE GIBBS BROWN**  
Inspector General

MAY 1997  
CIN: A-04-96-04575

## EXECUTIVE SUMMARY

This report discusses the results of our audit of Superfund financial activities of the Agency for Toxic Substances and Disease Registry (ATSDR) during Fiscal Year (FY) 1995. We conducted our audit to comply with provisions of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (the Act). The Act requires the Inspector General of a Federal organization with Superfund responsibilities to audit all uses of the Superfund.

The ATSDR receives Superfund monies through interagency agreements with the Environmental Protection Agency (EPA) to carry out health related activities mandated by Superfund legislation. From October 1, 1994 through September 30, 1995, ATSDR's obligations of Superfund monies totaled about \$68.4 million and disbursements totaled about \$62.1 million of funds obligated during and prior to that year.

The audit showed that ATSDR generally administered the fund in accordance with applicable laws and regulations. However, we noted that ATSDR needed to implement corrective actions in the following three areas.

- The ATSDR did not document the reasonableness of \$5,360,000 paid to the Centers for Disease Control and Prevention (CDC) for administrative and support services. Absent such documentation, ATSDR cannot assure that the Superfund is not being overcharged. We identified the absence of such documentation in last year's audit and the Public Health Service (PHS) had agreed that CDC would have the documentation by February 1996. However, we found no evidence that this agreement was upheld.

We are recommending that ATSDR either (1) obtain documentation showing the reasonableness of charges for FY 1995 for administrative and support services from CDC or (2) assure that the Superfund is refunded payments for the charges that cannot be supported. We are also recommending that ATSDR not pay such charges in future years unless supporting documentation for them is provided. The documentation should include all records and reports necessary to ensure that charges are reasonable for the services actually provided, and that charges for the services were consistent with similar charges to CDC's own programs.

In its response to a draft of our report, ATSDR expressed their belief that the FY 1995 charges for administrative and support services were reasonable. However, they concurred with our

conclusion that these costs must be properly supported. The CDC is now in the process of developing a system to allocate indirect costs based on the services actually provided and document the bases for that allocation.

- The ATSDR did not ensure that all grantees obtain independent audits as required under Part 74 of Title 45, Code of Federal Regulations (CFR). Of the 65 grantees required to obtain audits of ATSDR grant expenditures in FY 1995, 5 did not submit reports. As a result, ATSDR has no assurance that Superfund monies claimed under grants totaling about \$1.3 million were allowable and reasonable, or that the grantees had adequate controls to ensure compliance with applicable laws, regulations and guidelines.

A similar situation was discussed in our audit reports on ATSDR's Superfund financial activities for FY 1992 and FY 1993, and PHS had agreed that procedures should be established to ensure audit reports were obtained from all Superfund grantees. Although a CDC official subsequently participated in a work group including several Department of Health and Human Services (HHS) components to study potential improvements to the systems currently used to assure receipt of independent audit reports, we found no evidence that this system had been improved.

We are recommending that ATSDR ensure that the five grantees submit the required audit reports on their Superfund expenditures as soon as possible. We are also recommending that ATSDR establish controls to ensure that all Superfund grantees submit the required audit reports.

The ATSDR cited its success in reducing the numbers of delinquent audit reports over recent years, and added that the 5 reports mentioned above had been obtained following our field work. However, ATSDR officials maintain that the problem of consistently obtaining audit reports on a timely basis is a departmental problem and that our recommendation should be restated to say that "the Department and the OIG establish controls...."

We strongly disagree with the contention that any problems with HHS' centralized system for processing audit reports would relieve ATSDR of fulfilling its own responsibilities to ensure that its grantees are using Superfund monies in full accordance with applicable laws and regulations. Both the HHS and PHS Grants Administration Manuals clearly delineate the responsibility of Grant Officers to ensure that the required audits are performed and specify that responsibility for this function may not be delegated to other individuals or organization.

- The ATSDR did not provide evidence that it had submitted a Minority Contractor Utilization Report, as required under its agreement with EPA. The ATSDR report was transmitted to the HHS Office of the Secretary on February 28, 1996, more than 2 months after the date it was due to EPA, but we found no evidence that the report was ever provided to EPA.

We are recommending that ATSDR establish adequate controls to ensure that annual Minority Contractor Utilization Reports are prepared on a timely basis, and that it submit copies of the reports to EPA at the same time they are transmitted to departmental headquarters for consolidation.

The ATSDR concurred with our recommendation and stated that the report for FY 1995 has been submitted to EPA.

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## GLOSSARY OF ABBREVIATIONS AND ACRONYMS

<b>The Act</b>	Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended
<b>ATSDR</b>	Agency for Toxic Substances and Disease Registry
<b>CDC</b>	Centers for Disease Control and Prevention
<b>CFR</b>	Code of Federal Regulations
<b>Comp. Gen.</b>	Comptroller General Decision
<b>CPA</b>	Certified Public Accountant
<b>EPA</b>	Environmental Protection Agency
<b>FY</b>	Fiscal Year
<b>HHS</b>	Department of Health and Human Services
<b>OIG</b>	Office of Inspector General
<b>PHS</b>	Public Health Service
<b>SARA</b>	Superfund Amendments and Reauthorization Act of 1986

## BACKGROUND

The ATSDR, located in Atlanta, Georgia, was created in 1980 as a separate agency of PHS. However, CDC performs accounting and administrative functions for ATSDR. Effective October 1, 1995, ATSDR, CDC, and all other PHS agencies became separate components of HHS, reporting directly to the Secretary.

The Act mandated the establishment of the Hazardous Substance Response Fund, commonly known as the Superfund. The Act was extended and amended by the Superfund Amendments and Reauthorization Act of 1986 (SARA). Under the management of EPA, the Superfund is used to respond to emergency environmental conditions which are hazardous to health and pay for the costs of removing toxic substances.

The ATSDR receives Superfund monies through interagency agreements with EPA to carry out health related activities mandated by the Act. To fulfill its Superfund responsibilities, ATSDR conducts health assessments, health consultations, pilot health effects studies and health surveillance programs. In addition, ATSDR produces toxicological profiles, a listing of areas closed to the public, and a national registry of serious diseases, illnesses and persons exposed to toxic substances.

Funds are obligated by ATSDR when it commits to carry out activities related to its Superfund responsibilities, and are disbursed when those activities have been completed. During the period October 1, 1994 through September 30, 1995, ATSDR obligated about \$68.4 million of Superfund monies and disbursed about \$62.1 million. Of the \$62.1 million of disbursements, about \$27.8 million were from FY 1995 funds and about \$34.3 million from prior years' funds.



## OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to determine whether ATSDR:

- claimed costs that were allowable, allocable, and reasonable in accordance with applicable laws and regulations and the terms of its agreement with EPA;
- charged overhead costs in accordance with Section 601 of the Economy Act of 1932 and Comptroller General Decisions (Comp. Gen.) 56 Comp. Gen. 275 and 57 Comp. Gen. 674;
- was able to accurately record costs on a site-specific basis; and
- submitted a Minority Contractor Utilization Report to EPA on an accurate and timely basis.

Our audit was performed to comply with section 111(k) of the Act, as amended by SARA, which mandates that the Office of Inspector General (OIG) of any Federal agency with Superfund responsibilities audit all uses of Superfund monies. The audit was performed in accordance with the terms and conditions set forth in interagency agreement number DW75937034-01-0 with the EPA's OIG.

To test the allowability, allocability, and reasonableness of Superfund disbursements, we obtained listings of ATSDR staff and accounting records documenting all costs charged to ATSDR through the CDC accounting system for FY 1995. We reviewed a stratified random sample of 100 items from these listings. The first stratum included 30 personnel transactions representing \$57,838 of the \$17,732,276 of personnel costs claimed by ATSDR. The second stratum included 70 transactions totaling \$468,305 of the \$17,733,910 of non-personnel, non-grant disbursements during the year.

We did not test the ATSDR's disbursements to grantees. These grants are subject to independent audit under CFR Title 45, Part 74. We obtained information from CDC and the OIG National External Audit Review Center to determine whether ATSDR's grantees had submitted audit reports as required.

We reviewed ATSDR's interagency agreements to identify the reporting requirements and verified that those requirements were met during the year.

We tested ATSDR's capacity to properly account for costs on a site-specific basis by reviewing relevant reports and supporting working papers prepared by Cotton & Company, Certified Public Accountants (CPA), for FY 1994. Under a contract from ATSDR, the CPAs analyzed and tested ATSDR's costs for FY 1994, developed an indirect cost allocation plan, and determined a rate for the recovery of indirect costs allocable to Superfund sites. Based on our review of the work performed for FY 1994, as well as our review of draft reports for FY 1995, we relied upon the work performed by Cotton & Company in assessing the adequacy of ATSDR's site-specific cost accounting.

We performed general tests of compliance with applicable laws and regulations, such as those covering cost principles. In addition, we tested ATSDR's compliance with provisions of the following criteria:

- Section 601 of the Economy Act of 1932 and amendments thereto;
- 56 Comp. Gen. 275 (1977);
- 57 Comp. Gen. 674 (1978);
- Section 110 of the Act (functional requirements of the agency); and
- Section 105(f) of the Act (minority contractors).

As part of our audit, we evaluated ATSDR's system of internal controls to the extent necessary to accomplish our audit objectives. However, our audit did not include a comprehensive evaluation necessary to express an opinion on the system of internal controls taken as a whole. For purposes of this audit, we classified significant internal controls in eight categories:

- Funding Authority
- Financial Reporting
- Payroll and Timekeeping
- Travel
- Equipment
- Other Contractual Services
- Grants and Cooperative Agreements
- Obtaining Reports on Audits of Grantees

We conducted our audit in accordance with generally accepted government auditing standards applicable to financial related audits. Audit work was performed at ATSDR and CDC during the period January through October 1996.

A draft of this report was provided to ATSDR for review and comment on March 12, 1997. Their comments, dated April 25, 1997,

are summarized after each finding and are presented in their entirety in the Appendix.

## RESULTS OF AUDIT

Our audit showed that ATSDR generally administered Superfund monies in accordance with applicable laws, regulations, and other requirements, except that it did not:

- maintain adequate documentation related to its interagency agreement for administrative and support services with CDC;
- maintain adequate controls to ensure that all grantees obtain independent audits as required under Part 74 of Title 45, CFR; and
- submit Minority Contractor Utilization Reports to EPA as required by its interagency agreement.

Our findings and recommendations related to these three areas are presented below. In addition, we discuss the results of our audit work related to ATSDR's site-specific cost accounting system, the resolution of findings from prior year audit reports, internal control systems, and compliance with applicable laws and regulations.

### **ALLOWABILITY, ALLOCABILITY, AND REASONABLENESS OF CLAIMED COSTS**

#### **Administrative and Support Costs**

Section 601 of the Economy Act of 1932 authorizes agencies such as ATSDR to "...place orders with any other such department, establishment, bureau or office for materials, supplies, equipment, work, or services..." needed to accomplish its mission. As shown below, however, any amounts charged for those services must reflect only the actual costs of the services.

56 Comp. Gen. 275 specifies, in part, that:

"The statute as thus construed clearly establishes the principle that payment for the services shall be upon a cost basis and such principle is binding upon both the procuring and requisitioned agency in fixing the charges to be billed and paid."

Further, 57 Comp. Gen. 674 added that:

"...cost comparisons and billings under section 601 of the Economy Act of 1932 as amended...shall not include items of indirect cost which are not significantly related to costs incurred by the performing agency in executing the requisitioning agency's work...."

"If an item of indirect cost does not bear a significant relationship to the service or work performed..., it should not be included as an element of actual cost...."

The ATSDR annually approves an interagency agreement under which CDC provides "administrative and support services" for ATSDR. The agreement for FY 1995 provided for an estimated cost of \$5,360,000 and 36 full-time equivalent positions to cover services broadly defined as follows.

"Administrative services supplied to ATSDR will be those routinely supplied to CDC Centers, Institutes, and Offices through the Office of the Director. These include, but are not limited to, administrative services from the CDC Washington Office, Office of Health and Safety, Office of Program Planning and Evaluation, Office of Public Affairs, Management Analysis and Services Office, Information Resources Management Office, Financial Management Office, Human Resources Management Office, and Procurement and Grants Office."

As in FY 1994, we were told that the amounts charged to ATSDR were "negotiated" based on 5 percent of ATSDR's grants and cooperative agreements and 20 percent of all other costs. The ATSDR did not maintain adequate documentation to allow a determination as to whether CDC's charges related to this interagency agreement reflected only the actual costs of the administrative and support services provided to ATSDR.

The ATSDR and CDC could provide no documentation that the \$5,360,000 paid to CDC for administrative and support services reflected a reasonable cost for the specific services provided, nor could they provide documentation that these charges were consistent with similar charges to CDC's own programs. As a result, ATSDR has no assurance the Superfund was not overcharged for administrative and support services.

The need to properly assess the appropriateness of CDC's charges for administrative and support services was cited in our audit report of ATSDR's activities for FY 1994. In responding to that report, PHS concurred with our finding and committed CDC to develop a cost allocation plan to "...support and document the basis..." for administrative and support costs charged to ATSDR.

The CDC expected to have the cost allocation plan completed by February 1996.

Despite repeated requests, however, CDC did not provide us with documentation to show that its charges to ATSDR were reasonable in light of the services actually provided or that the charges resulted from an equitable allocation methodology.

In a prior audit of CDC's data processing operations issued on March 16, 1994, we found that CDC's negotiated charges did not always reflect the services actually provided. Instead, the audit showed that some centers, institutes, and offices had been significantly overcharged while others had not been charged for the costs of services actually provided. Without adequate documentation, we cannot express an opinion on the allowability, allocability, and reasonableness of CDC's charges for administrative and support services. We believe that ATSDR should not allow reimbursement from the Superfund unless charges are adequately justified. Justification for administrative and support services charged by CDC should include such records and reports necessary to ensure that the charges are (1) reasonable for the services actually provided and (2) consistent with similar charges to CDC's own programs.

#### **Recommendations**

We recommend that ATSDR:

1. either obtain documentation supporting the reasonableness of \$5,360,000 of costs for administrative and support services for FY 1995, or assure that the Superfund is refunded costs that cannot be supported.
2. require documentation supporting all future charges to the Superfund for administrative and support services as a condition for payment. All future interagency agreements should include requirements for such records and reports as are necessary to ensure that charges are reasonable for the services actually provided and that charges for the services were consistent with similar charges to CDC's own programs.

#### **ATSDR Comments**

Based on a review of major cost elements, the ATSDR has concluded that the amounts charged for administrative and support costs for FY 1995 were reasonable. For example, ATSDR cites 36 full-time positions within CDC which provide support to ATSDR and \$1.6 million of rent and utility costs applicable to ATSDR occupied space.

However, ATSDR concurred with our conclusion that the indirect costs charged by CDC must be properly supported. The CDC is now

in the process of designing and developing an allocation system intended to distribute indirect costs based on the services actually provided and appropriately document the equity of its allocations. The CDC has retained an outside consulting firm to assist in the development of its new system and has also requested that the OIG provide technical assistance during development of the new system.

### **OIG Response**

The need for adequate documentation of CDC's charges for administrative and support costs has been a recurring audit issue. Accordingly, we are pleased that CDC is developing an updated cost allocation system. We have had several meetings with CDC officials in recent weeks to discuss alternative allocation methods. We will continue to provide any technical assistance requested by CDC.

### **Grantee Audits**

Part 74 of Title 45 of the CFR requires that organizations receiving Federal grants must obtain independent audits performed in accordance with generally accepted government auditing standards. To comply with these standards, the auditor must determine whether:

- the financial statements of the organization present fairly the financial position of the organization and the results of its financial operations;
- the organization has internal accounting and other control systems to provide reasonable assurance that it is managing Federal financial assistance programs in compliance with applicable laws and regulations; and
- the organization has complied with laws and regulations that may have a material effect on its financial statements.

These audit reports provide the primary basis for ATSDR to ensure that the costs charged to Superfund grants and cooperative agreements are allowable, allocable, and reasonable; that resources are protected against fraud, waste, and abuse; and that reliable data are maintained and reported.

The ATSDR did not maintain adequate controls to ensure that all grantees obtained the required independent audits. Of the 65 grantees which were required to obtain audits of ATSDR grant expenditures in FY 1995, 5 did not submit reports. As a result, ATSDR has no assurance that Superfund monies claimed under these grants, totaling about \$1.3 million, were allowable and

reasonable or that the grantees had adequate controls to ensure compliance with applicable laws, regulations, and guidelines.

A similar situation was discussed in our reports for FY 1992 and FY 1993, and PHS agreed at that time that procedures should be established to ensure that audit reports were obtained from all Superfund grantees. However, because many of these grantees were funded by numerous agencies, PHS believed that the responsibility for these procedures should be placed at a central point.

We found that a CDC official had participated in a work group including representatives of several HHS components studying potential improvements to the systems currently used to better assure receipt of independent audit reports. However, we found no evidence that this group had reached any definitive conclusions as to the extent and direction of actions needed to ensure that the reports are received.

### **Recommendations**

We recommend that ATSDR:

3. ensure that the five grantees not submitting the required audit reports on their Superfund expenditures submit the reports as soon as possible; and
4. establish controls to ensure that all Superfund grantees submit the required audit reports.

### **ATSDR Comments**

The ATSDR cites its success in reducing the numbers of delinquent audit reports in recent years, with 92 percent compliance in FY 1995 as compared to only 66 percent in FY 1992. They pointed out that the five audit reports mentioned above had now been obtained and disclosed no significant findings.

The ATSDR also maintains that the receipt of audit reports from HHS grantees is a centralized process, and that the responsibility for correcting systemic problems in that process are responsibilities of HHS and the OIG rather than ATSDR. Thus, they suggest that our recommendation that "ATSDR establish controls..." should be reworded to state that the "Department and OIG establish controls...."

### **OIG Response**

We strongly disagree with the contention that any problems with HHS centralized systems for processing grantee audit reports would in any way relieve ATSDR of its own responsibilities to ensure that its grantees are using Superfund monies in full compliance with all applicable laws and regulations. Both the

HHS and PHS Grants Administration Manuals clearly delineate the responsibility of Grant Officers to ensure that the required audits are performed and specify that responsibility for this function may not be delegated to other individuals or organization.

### **Minority Contractor Utilization Report**

Section 8 of Attachment A to its interagency agreement with EPA requires ATSDR to submit annual reports, no later than November 15th, documenting minority contractor participation in Superfund activities and the efforts taken to encourage the utilization of minority firms. In addition, the interagency agreement requires HHS to submit an additional report to EPA, no later than December 15, documenting the actual amount and percentage of extramural (grant and cooperative agreement) funds awarded to businesses owned or controlled by socially or economically disadvantaged individuals.

The ATSDR did not complete its minority contractor utilization report on a timely basis. Further, we were unable to verify that ATSDR data was ever provided to EPA as required by its interagency agreement.

The ATSDR transmitted its data to the HHS Office of Small and Disadvantaged Business Utilization on February 28, 1996, more than 2 months after the date it was due to EPA. We were told that the delay was a result of Government furloughs earlier in FY 1995.

Despite repeated contacts with the Office of Small and Disadvantaged Business Utilization, we were unable to obtain any evidence that ATSDR data was ever provided to EPA. We were told that ATSDR data was consolidated with similar information related to the National Institute of Environmental Health Sciences, but no copy of the consolidated report could be located.

In responding to our report for FY 1993, PHS agreed that the minority contractor utilization reports should be prepared and submitted on a timely basis and committed ATSDR to provide all required data to EPA by the due dates.

### **Recommendations**

We recommend that ATSDR:

5. establish adequate controls to ensure that annual Minority Contractor Utilization Reports are prepared timely, and submit copies of the reports to EPA at the same time they are transmitted to departmental headquarters for consolidation.



## **ATSDR Comments**

The ATSDR concurred with our recommendation and added that the FY 1995 Minority Contractor Utilization Report had been transmitted to the EPA subsequent to the completion of field work on our audit.

### **SITE-SPECIFIC COST ACCOUNTING**

The ATSDR has an automated system in place to record costs on a site-specific basis and contracts with Cotton & Company, CPAs, to analyze recorded costs, develop an indirect cost allocation plan and determine a rate for the recovery of indirect costs allocable to Superfund sites.

We concluded that ATSDR had adequate controls to ensure that site-specific costs were accurately recorded on a timely basis.

### **RESOLUTION OF PRIOR AUDIT FINDINGS**

The ATSDR has taken appropriate action to prevent the recurrence of our FY 1994 finding related to reporting requirements under interagency agreements with other agencies. Our audit tests disclosed no evidence of similar problems during FY 1995.

It should be noted, however, that the three areas in which we present audit findings above had also been discussed in previous audit reports. The need for improved controls over grantee audits was discussed in both our FY 1992 and FY 1993 reports, the need for timely submission of minority contractor utilization reports was discussed in FY 1993, and the need for adequate documentation for administrative and support charges was discussed in FY 1994.

### **INTERNAL CONTROLS**

The ATSDR is responsible for establishing and maintaining internal control systems used in administering Superfund programs and activities. In fulfilling that responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objective of internal control systems is to provide management with reasonable, but not absolute, assurance that resource use is consistent with laws, regulations and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and fairly disclosed in reports.

Because of inherent limitations in any system of internal accounting controls, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that procedures may

become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate.

Although our audit did not disclose any material irregularities, we noted matters involving ATSDR's internal control structure and its operations that we consider reportable conditions based on the reporting requirements of generally accepted auditing standards. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design and operation of the internal control structure which, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial reports. These matters are discussed in this report under the headings **Administrative and Support Costs, Grantee Audits, and Minority Contractor Utilization Report.**

#### **COMPLIANCE**

Compliance with laws, regulations, contracts, grants, and interagency agreements is a responsibility of ATSDR management officials. With respect to the items tested, except as discussed above, ATSDR complied with applicable laws and regulations in all material respects. With respect to items not tested, nothing came to our attention which caused us to believe that ATSDR had not complied, in all material respects, with those provisions.

# APPENDIX



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APR 21 1997

# Memorandum

Date APR 25 1997

From Assistant Administrator  
Agency for Toxic Substances and Disease Registry

Subject ATSDR Comments on OIG Draft Report "Superfund Financial  
Activities at the Agency for Toxic Substances and Disease  
Registry for Fiscal Year 1995" (A-04-96-04575)

To Joseph J. Green  
Assistant Inspector General for Audit Services

Thank you for the opportunity to review the Office of Inspector General (OIG) Draft Report "Superfund Financial Activities at the Agency for Toxic Substances and Disease Registry for Fiscal Year 1995." The audit found that the Agency for Toxic Substances and Disease Registry (ATSDR) generally administered the fund in accordance with applicable laws and regulations. The auditor noted, however, that the Centers for Disease Control and Prevention (CDC) and ATSDR: (1) did not document the reasonableness of the \$5,360,000 paid to the CDC for administrative and support services; (2) did not ensure that all grantees obtain independent audits as required under Part 74 of Title 45, Code of Federal Regulation (C.F.R.); and (3) did not provide evidence that it had submitted a Minority Contractor Utilization Report, as required under its agreement with the Environmental Protection Agency (EPA).

The OIG report makes recommendations to address these matters. The following are ATSDR's comments regarding the report recommendations.

### OIG Recommendation

We are recommending that ATSDR obtain documentation showing the reasonableness of its FY 1995 charges for administrative and support services. We are also recommending that ATSDR not pay such charges in future years unless supporting documentation for them is provided. The documentation should include all records and reports necessary to ensure that charges are reasonable for the services actually provided, and that charges for the services were consistent with similar charges to CDC's own programs.

### CDC Comments

In response to the OIG's recommendations, CDC has reviewed the available documentation, and we have concluded that the amount billed to ATSDR was reasonable. This conclusion is based on the specific identification of certain major support costs provided

by CDC which account for a significant portion of the total amount billed. These costs include the FTEs in CDC which provide support to ATSDR, and other specifically identified charges such as rent and utilities in the amount of \$1.6 million paid by CDC for ATSDR.

However, while we believe that the FY 1995 charges were reasonable, we also concur with the OIG's conclusion that indirect costs must be properly supported. We fully recognize that CDC needs to develop a cost allocation plan which will provide for an equitable distribution of indirect costs, and which will comply with the requirements of the Government Performance and Results Act, and the new Managerial Cost Accounting Standard. Over the past 12 months, CDC has devoted many hours to the discussion of various allocation methodologies, and we will continue this effort until an acceptable plan is developed.

We believe that significant progress has already been made on the development of an indirect cost allocation plan. At present, we are discussing the indirect cost issues with CDC's program managers, and with our own accounting staff. We are also obtaining advice on indirect cost allocation from an outside consulting firm. In the near future, we hope to start the process of identifying one or more indirect cost pools. After the indirect pools are developed, we will try to determine an appropriate base for each pool which might be a proportional distribution such as FTEs, or a level of service distribution such as the number of awards, number of payments, number of transactions, etc. One of the recommendations from the FY 1996 CFO audit advised CDC to work closely with the OIG to update the indirect cost rate. Therefore, as we develop each phase of the plan, we hope the OIG can review our progress and provide technical advice on the approach taken.

#### OIG Recommendation

We are recommending that ATSDR ensure that the five grantees submit the required audit reports on their Superfund expenditures as soon as possible. We are also recommending that ATSDR establish controls to ensure that all Superfund grantees submit the required audit reports.

#### CDC Comments

The audit report identified 5 of 65 grantees who were delinquent in submitting required audit reports. This ratio represents 92% compliance, which is a great improvement from the 66% compliance rate identified in the 1992 audit report. The issue regarding the overall system improvements rests not with ATSDR nor CDC, but with the Department and the Office of Inspector General

since the receipt of audit reports within the Department is a centralized operation. The working group is reportedly still actively pursuing resolution of this issue. The OIG recommendation that "ATSDR establish controls...." is misguided and should be restated that the "Department and OIG establish controls...."

In regard to the 5 outstanding audits, our review has determined that all have submitted audit reports through the FY 1994 grant periods. It is significant to note that the grantee audit reports did not disclose any significant problems or issues regarding allowability or reasonableness of cost, nor lack of adequate controls that would raise concern regarding their performance.

#### OIG Recommendation

We are recommending that ATSDR establish adequate controls to ensure that annual Minority Contractor Utilization Reports are prepared on a timely basis, and that it submit copies of the reports to the EPA at the same time they are transmitted to departmental headquarters for consolidation.

#### CDC Comments

In regard to the Minority Contractor Utilization Report, we concur in the recommendation that this report will be submitted to EPA concurrently with the submission to the Department's Office of Small and Disadvantaged Business Utilization. The report for FY 1995 has been directly submitted to EPA subsequent to this audit finding.

If you have any questions, please contact Carolyn Russell, Management Analysis and Services Office, at (404) 639-0440.



Barry L. Johnson, Ph.D.  
Assistant Surgeon General