



OFFICE OF INSPECTOR GENERAL

*Catalyst for Improving the Environment*

## **Audit Report**

# **EPA Could Improve Its Redistribution of Superfund Payments to Specific Sites**

**Report No. 2006-P-00027**

**July 31, 2006**

**Report Contributors:**

Paul Curtis  
Margaret Bastin  
Arthur Budelier  
Alfred Falciani  
Robert Evans

Kevin Ross  
Shannon Schofield  
Juliet Stebbens  
Wendy Swan

**Abbreviations**

CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
CFO	Chief Financial Officer
EPA	U.S. Environmental Protection Agency
OARM	Office of Administration and Resources Management
OCFO	Office of the Chief Financial Officer
OFM	Office of Financial Management
OFS	Office of Financial Services
OGD	Office of Grants and Debarment
OIG	Office of Inspector General
OSWER	Office of Solid Waste and Emergency Response
RMDS	Resources Management Directive System



# At a Glance

*Catalyst for Improving the Environment*

## Why We Did This Review

We performed this review to examine a potential Superfund cost recovery issue noted during our audit of the U.S. Environmental Protection Agency's (EPA's) fiscal year 2003 financial statements. As of August 2003, EPA had recorded payments of \$97 million for Superfund response costs to a general site identifier "WQ" that should have been redistributed to specific sites or other general site identifiers to improve EPA's cost recovery.

## Background

EPA has the authority through the Superfund program to respond directly to releases of hazardous substances and seek recovery of its costs from the responsible parties. EPA accounts for response costs at a site-specific level to enable cost recovery. EPA obligates costs not readily identifiable to a site to the general site identifier "WQ," and upon payment redistributes the costs to specific sites.

**For further information, contact our Office of Congressional and Public Liaison at (202) 566-2391.**

**To view the full report, click on the following link:**  
[www.epa.gov/oig/reports/2006/20060731-2006-P-00027.pdf](http://www.epa.gov/oig/reports/2006/20060731-2006-P-00027.pdf)

## ***EPA Could Improve Its Redistribution of Superfund Payments to Specific Sites***

### **What We Found**

EPA did not make timely redistributions of Superfund cooperative agreement, interagency agreement, and small purchase payments from the general site identifier "WQ" to the specific Superfund sites or other general site identifiers. The finance offices that we reviewed recorded the payments to "WQ" instead of redistributing them to the appropriate general or site-specific identifiers, as required. As of January 2006, \$39 million was recorded in "WQ" for those funding vehicles. The payments remained undistributed for periods ranging from 2 months to 10 years. As a result, the \$39 million may not be considered in settlement negotiations and oversight billings. Consequently, these funds may not be recovered from responsible parties and be available for future site cleanup activities.

We found various reasons why EPA did not timely redistribute the "WQ" costs. EPA did not establish "WQ" procedures, consistently monitor the "WQ" accounts, and provide "WQ" training. EPA also did not require cooperative agreement recipients to provide the site-specific cost detail needed.

Subsequent to our audit, EPA provided unaudited data reports that indicated the undistributed "WQ" was reduced to \$13 million as of May 12, 2006.

### **What We Recommend**

We recommend that EPA (1) develop written "WQ" procedures, including timeliness standards and monitoring procedures; (2) provide training; (3) change cooperative agreement conditions to require recipients to provide cost details within 24 hours of drawing down funds, and enforce those conditions; and (4) redistribute the remaining historical "WQ" costs.

EPA began corrective action on several of our recommendations before we completed the audit, and generally agreed with all recommendations.



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

OFFICE OF  
INSPECTOR GENERAL

July 31, 2006

**MEMORANDUM**

**SUBJECT:** EPA Could Improve Its Redistribution of Superfund Payments to Specific Sites  
Report No. 2006-P-00027

**TO:** Lyons Gray  
Chief Financial Officer

Susan Parker Bodine  
Assistant Administrator for Solid Waste and Emergency Response

Luis A. Luna  
Assistant Administrator for Administration and Resources Management

This is our report on the subject audit conducted by the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA). This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends. This report represents the opinion of the OIG and does not necessarily represent the final EPA position. Final determination on matters in this report will be made by EPA managers in accordance with established audit resolution procedures. The estimated cost of this report – calculated by multiplying the project’s staff days by the applicable daily full cost billing rates in effect at the time – is \$322,000.

**Action Required**

In accordance with EPA Manual 2750, the Office of the Chief Financial Officer (OCFO), as the primary Action Official, is required to provide a written response to this report within 90 calendar days. OCFO should work with the Office of Solid Waste and Emergency Response and the Office of Administration and Resources Management to coordinate the response, which should include a corrective action plan for agreed upon actions, including milestone dates. We have no objection to the further release of this report to the public. This report will be available at <http://www.epa.gov/oig>.

If you or your staff have any questions, please contact Paul Curtis at (202) 566-2523 or [curtis.paul@epa.gov](mailto:curtis.paul@epa.gov), or Meg Bastin at (513) 487-2366 or [bastin.margaret@epa.gov](mailto:bastin.margaret@epa.gov).

Sincerely,

A handwritten signature in black ink, appearing to read "Bill A. Roderick". The signature is written in a cursive style with a horizontal line underneath it.

Bill A. Roderick  
Acting Inspector General

# Table of Contents

---

## Chapters

<b>1</b>	<b>Introduction .....</b>	<b>1</b>
	Purpose .....	1
	Background .....	1
	Scope and Methodology .....	3
<b>2</b>	<b>EPA Could Improve Its Superfund “WQ” Site Cost Redistribution Process...</b>	<b>4</b>
	EPA Did Not Timely Redistribute “WQ” Site Costs.....	4
	Various Factors Contributed to Untimely Redistributions .....	5
	Untimely Redistributions Impact Cost Recovery .....	6
	Agency Actions to Date .....	6
	Recommendations .....	7
	Agency Response and OIG Comment .....	8
	<b>Status of Recommendations and Potential Monetary Benefits .....</b>	<b>9</b>

## Appendices

<b>A</b>	<b>Details on Scope and Methodology.....</b>	<b>10</b>
<b>B</b>	<b>Undistributed “WQ” Costs by Region and Funding Vehicle.....</b>	<b>12</b>
<b>C</b>	<b>Causes of Untimely Redistributions by Applicable Location and Funding Vehicle .....</b>	<b>13</b>
<b>D</b>	<b>Full Text of Agency Response .....</b>	<b>14</b>
<b>E</b>	<b>Distribution .....</b>	<b>20</b>

# Chapter 1

## Introduction

### Purpose

We performed this review to examine a potential Superfund cost recovery issue noted during our audit of the U.S. Environmental Protection Agency's (EPA's) fiscal year 2003 financial statements. As of August 2003, EPA had recorded payments of \$97 million for Superfund response costs to a general site identifier "WQ" that should have been redistributed to specific site identifiers to improve EPA's cost recovery. The objective of our current review was to answer the following questions:

- 1) Does EPA make timely redistributions of Superfund costs recorded in the "WQ" general site identifier to the specific Superfund sites?

If EPA does not make timely redistributions:

- 2) What is the cause of untimely redistributions?
- 3) What is the effect of untimely redistributions?
- 4) What actions are needed to ensure timely redistributions?

### Background

EPA established the Superfund program in 1980 under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA). Since its inception, the Superfund program has given EPA the authority to respond directly to releases or threatened releases of hazardous substances that may endanger public health or the environment. The Agency has the authority to seek the recovery of its costs of responding from those parties responsible for release of the hazardous substances.

Since fiscal year 2004, the Superfund Trust Fund has been primarily supported by appropriations from general tax revenues. Replenishing the Trust Fund through EPA's cost recovery has decreased significantly over several years and the Trust Fund no longer receives tax revenue. Therefore, Superfund cost recovery is critical to EPA's continued efforts under CERCLA.

Since EPA seeks cost recovery from responsible parties, it is essential that EPA's financial management system account for response costs at a site-specific level. Therefore, EPA tracks Superfund costs at sites using unique alphanumeric

identifiers. The first four characters of the identifier are known as the site/spill identifier. The first two digits are numeric, and represent the EPA region (1 of 10) where the site is located. The next two characters identify the site.

EPA established general site identifiers for costs that are not immediately identifiable to a specific site or are unrelated to a site. EPA uses the general site identifier “WQ” to obligate amounts funded for a site-specific response, when the precise amounts applicable to the individual sites cannot be determined at the time of obligation. According to the *Superfund Program Implementation Manual, Fiscal Year 2006/2007*, “WQ” is used to obligate bulk or block funding only, i.e., where site/spill identifiers exist but funds are not committed to a specific site. However, when disbursement/payments are made for “WQ” obligations, they must be associated with a site. For example, EPA could obligate management assistance funds to the “WQ” site identifier under a multi-site cooperative agreement, giving the recipient the flexibility to shift resources as needed among different sites. Additional general identifiers are “ZZ” for preliminary site assessment costs on sites that have not been assigned an identifier number and “00” for indirect costs not related to a specific site that will be allocated to the Superfund indirect cost rate.

EPA disbursed “WQ” costs on four types of funding vehicles: contracts, interagency agreements, cooperative agreements, and small purchases. EPA processes contracts and small purchases at the Research Triangle Park Finance Center and interagency agreements at the Cincinnati Finance Center. EPA is transferring the processing of cooperative agreements from the regional offices to the Las Vegas Finance Center.

Cooperative agreements and interagency agreements were the primary funding vehicles for EPA’s undistributed “WQ” cost payments, as shown in the following table.

<b>Funding Vehicles</b>	<b>Undistributed “WQ” Costs as of January 2006</b>
Cooperative Agreements	\$31,532,427
Interagency Agreements	6,165,253
Small Purchases	1,798,890
Subtotal	39,496,570
Contracts (unaudited)	1,806,639
<b>Total</b>	<b>\$41,303,209</b>

A cooperative agreement is a legally binding obligating document through which EPA often provides funding to a State to carry out removal and/or remedial activities. Cooperative agreements with “block funding” provide States increased flexibility to shift resources among multiple activities. An interagency agreement is a written agreement between Federal agencies under which goods and services



are provided. The Superfund program uses interagency agreements to request certain Federal agencies to assist with site cleanups and associated activities and to provide ongoing support or services.

Three offices have primary responsibility for the areas covered in this report. The Office of the Chief Financial Officer (OCFO) is responsible for EPA's financial management and Superfund cost recovery system. The Office of Solid Waste and Emergency Response (OSWER) manages the Superfund program. The Office of Administration and Resources Management (OARM) is responsible for administering grants and cooperative agreements.

## **Scope and Methodology**

We performed this audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. We conducted our audit from January 4, 2006, through March 29, 2006. Appendix A contains a more extensive discussion of this section.

## Chapter 2

# EPA Could Improve Its Superfund “WQ” Site Cost Redistribution Process

While EPA has timely redistributed “WQ” costs paid through contracts, its redistribution process for costs paid through cooperative agreements, interagency agreements, and small purchases could be improved. Various factors contributed to certain untimely redistributions, which possibly hindered EPA’s ability to recover the costs from responsible parties. EPA did not establish “WQ” procedures, consistently monitor the “WQ” accounts, and provide “WQ” training. Also, EPA did not require cooperative agreement recipients to provide the site-specific cost detail needed. The \$39 million of Superfund costs not redistributed to specific sites may not be considered in settlement negotiations and oversight billings. Therefore, these funds may not be recovered from responsible parties and be available for future site cleanup activities.

### EPA Did Not Timely Redistribute “WQ” Site Costs

EPA did not make timely redistributions of Superfund cooperative agreement, interagency agreement, and small purchase payments from the general site identifier “WQ” to the specific Superfund sites or other general site identifiers. As of January 2006, the undistributed “WQ” for those funding vehicles totaled \$39 million. Appendix B contains a table of undistributed “WQ” costs by region and funding vehicle. EPA’s Comptroller Policy Announcement No. 96-01 states that disbursements will not be recorded against the “WQ” identifier. Once obligations are liquidated and disbursements are made, these costs must be redistributed from the “WQ” account to the appropriate site/spill identifier. The finance offices that we reviewed recorded the payments to the general site identifier “WQ” and did not redistribute payments to the appropriate general or site-specific identifiers, as required.

The payments in “WQ” remained undistributed for periods ranging from 2 months to 10 years. Although EPA did not establish a definition of timeliness, we consider these extended periods to be untimely. The project officers and finance personnel we interviewed generally believed that a timely period for redistributing “WQ” costs would be 1 business day for cooperative agreement costs, 30 days for small purchases, and 60 days for interagency agreements.

Some locations have implemented effective procedures resulting in timely “WQ” redistributions. For example, the Research Triangle Park Finance Center redistributes contract costs within 1 business day of the project officer invoice approval. The Las Vegas Finance Center requires cooperative agreement recipients to provide the site-specific cost detail within 24 hours of drawing down

funds. Region 1 requires a recipient of a block-funded cooperative agreement to provide the site- specific cost information with its draw down request.

## **Various Factors Contributed to Untimely Redistributions**

We found various reasons why EPA did not timely redistribute the “WQ” costs for cooperative agreements, interagency agreements, and small purchases. Appendix C contains a table that matches the following causes with the applicable locations and funding vehicles:

- EPA did not establish procedures to ensure the timely redistribution of Superfund costs, except for contracts. Although Comptroller Policy Announcement 96-01 provided guidance for using the “WQ” identifier, EPA did not establish operating procedures or set timeliness standards for cooperative agreements, interagency agreements, and small purchases to implement the policy. For contracts, Research Triangle Park Finance Center was proactive in identifying untimely redistributions and establishing operating procedures and timeliness standards.
- EPA did not consistently monitor the amounts charged to “WQ” in the regional finance offices, Program Offices, and Finance Centers. Some offices that we reviewed monitored the “WQ” account consistently while others monitored on an irregular basis or not at all.
- EPA did not provide training in the “WQ” cost redistribution process. Project officers and finance personnel were unaware of their responsibilities to redistribute “WQ” costs. According to Comptroller Policy Announcement 96-01, project officers are responsible for redistributing “WQ” disbursements in a timely manner to ensure the accuracy of the Agency's reporting and supporting accounting data contained in the Agency's financial system.
- EPA did not establish “WQ” performance standards for project officers, and did not hold them accountable for their responsibilities related to “WQ” redistribution.
- EPA did not provide interagency agreement project officers a standard format for transmitting redistribution information to the Cincinnati Finance Center.
- EPA did not always request cooperative agreement recipients to provide the site-specific cost detail needed for redistributions. According to 40 Code of Federal Regulations 35, Subpart O, *Cooperative Agreements and Superfund State Contracts for Superfund Response Actions*, Section 35.6280, the recipient must identify and charge costs to specific sites, activities, and operable units, as applicable, for drawdown purposes as

specified in the cooperative agreement. Neither the project officers nor the finance office requested the cost detail, although the recipients had the capability to provide the detail.

- EPA did not include appropriate terms and conditions in some cooperative agreements requiring recipients to provide timely site-specific cost detail. For example, some cooperative agreements had a programmatic condition allowing the recipient to provide site-specific cost detail only once every 6 months, preventing the region from making timely “WQ” redistributions.
- EPA did not include a review of undistributed “WQ” costs in the closeout process for cooperative agreements. As a result, EPA closed some agreements without making the redistributions.

## **Untimely Redistributions Impact Cost Recovery**

Superfund costs not redistributed to specific sites may not be considered in settlement negotiations and oversight billings. Therefore, these funds may not be recovered from responsible parties and be available for future site cleanup activities. Consistent and accurate site-specific charging strengthens the program’s cost recovery by ensuring that potentially responsible parties pay their fair share of site cleanup costs.

According to EPA Comptroller Policy Announcement No. 96-01, the Agency needs financial information at the site level to perform analyses and make resource management decisions. When Superfund costs are not redistributed to specific sites, Agency management does not have the accurate financial information it needs.

## **Agency Actions to Date**

EPA began corrective action on several of our findings before issuance of our report:

- OCFO agreed to establish written procedures for the “WQ” cost redistribution process.
- EPA is working with cooperative agreement recipients to change a programmatic condition allowing the recipient to provide site-specific cost detail only once every 6 months to a more favorable condition requiring the recipient to provide the information within 24 hours after every draw down of funds.
- During our audit, EPA reduced the undistributed “WQ” costs in cooperative agreements, interagency agreements, and small purchases

from \$39 million to \$24 million. Most of the reduction occurred in cooperative agreements where Region 4 redistributed \$12 million “WQ” costs to the appropriate site identifier. Region 5 committed to redistributing its “WQ” costs, having obtained the cooperation of its recipients to provide the necessary site-specific cost detail. The Cincinnati Finance Center worked with interagency agreement project officers to reduce the undistributed interagency agreement “WQ” costs from \$6 million to \$4 million. Subsequent to our fieldwork, EPA provided data reports as of May 12, 2006, that indicated further reductions in the undistributed “WQ” costs from \$24 million to \$13 million. (Appendix B contains a table of undistributed “WQ” costs by region and funding vehicle.)

- Region 5 began requiring cooperative agreement recipients to provide detailed site identifier cost information when the recipients draw down funds.

## Recommendations

We recommend that OCFO, OSWER, and OARM:

1. As agreed, develop written procedures for implementing EPA’s Superfund site-specific accounting policies related to the general site identifier “WQ,” including a timeliness standard for redistributions for each funding vehicle, an explanation of project officers’ responsibilities, monitoring procedures, and “WQ” cost reviews at the time of closeout. Develop a standard format for project officers of interagency agreements to transmit cost redistribution information to the Cincinnati Finance Center.
2. Evaluate the need for training on “WQ” redistribution procedures for each type of funding vehicle and provide the appropriate level of training to the responsible personnel.
3. Continue working with the regions to redistribute the historical costs remaining in the “WQ” site identifier.

We recommend that OSWER and OARM:

4. Complete ongoing efforts to change the cooperative agreement conditions to require the recipient to provide site-specific cost details within 24 hours of drawing down funds, and enforce those conditions.
5. Amend the closeout process for cooperative agreements to include procedures to verify that “WQ” costs are redistributed.

6. Promote accountability for “WQ” redistributions among project officers and finance office personnel.

## **Agency Response and OIG Comment**

EPA agreed with our findings and recommendations. For each recommendation, EPA provided a corrective action plan, milestone date, and the responsible office. We consider EPA’s actions to be appropriate. The Agency’s full response to the draft report is in Appendix D.

## **Status of Recommendations and Potential Monetary Benefits**

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status <sup>1</sup>	Action Official	Planned Completion Date	Incurred Amount	Agreed To Amount
1	7	Develop written procedures for implementing EPA's Superfund site-specific accounting policies related to the general site identifier "WQ," including a timeliness standard for redistributions for each funding vehicle, an explanation of project officers' responsibilities, monitoring procedures, and "WQ" cost reviews at the time of closeout. Develop a standard format for project officers of interagency agreements to transmit cost redistribution information to the Cincinnati Finance Center.	O	CFO, Assistant Administrator for OSWER, and Assistant Administrator for OARM	October 2006	\$0	\$0
2	7	Evaluate the need for training on "WQ" redistribution procedures for each type of funding vehicle and provide the appropriate level of training to the responsible personnel.	O	CFO, Assistant Administrator for OSWER, and Assistant Administrator for OARM	November 2006	\$0	\$0
3	7	Continue working with the regions to redistribute the historical costs remaining in the "WQ" site identifier.	O	CFO, Assistant Administrator for OSWER, and Assistant Administrator for OARM	Ongoing  Completed	\$13,000  \$26,000	\$13,000 <sup>2</sup>  \$26,000 <sup>3</sup>
4	7	Continue working to change the cooperative agreement conditions to require the recipient to provide site-specific cost details within 24 hours of drawing down funds, and enforce those conditions.	O	Assistant Administrator for OSWER and Assistant Administrator for OARM	October 2006	\$0	\$0
5	7	Amend the closeout process for cooperative agreements to include procedures to verify that "WQ" costs are redistributed.	O	Assistant Administrator for OSWER and Assistant Administrator for OARM	October 2006	\$0	\$0
6	8	Promote accountability for "WQ" redistributions among project officers and finance office personnel.	O	Assistant Administrator for OSWER and Assistant Administrator for OARM	November 2006 and Ongoing	\$0	\$0

<sup>1</sup> O = recommendation is open with agreed-to corrective actions pending;  
C = recommendation is closed with all agreed-to actions completed;  
U = recommendation is undecided with resolution efforts in progress

<sup>2</sup> In the response to the Draft Report, the Agency agreed to redistribute the remaining \$13 million recorded in the WQ site identifier.

<sup>3</sup> During the course of the audit, the Agency redistributed an aggregate of \$26 million in costs recorded in WQ.

## ***Details on Scope and Methodology***

We reviewed EPA's processes for Superfund "WQ" site cost redistributions. To gain an understanding of the processes, we interviewed finance office personnel in Regions 1 and 5; the Finance Centers at Cincinnati, Research Triangle Park, and Las Vegas; and the Program Costing Staff within OCFO.

We obtained data reports of undistributed "WQ" costs for cooperative agreements, interagency agreements, small purchases, and contracts.

We conducted field work for cooperative agreements and small purchases in Regions 4 and 5, the locations with the highest levels of undistributed "WQ" costs. We conducted field work for interagency agreements in the Cincinnati Finance Center where the interagency agreement processing occurs. We tested a sample of undistributed "WQ" costs to determine whether EPA redistributed them timely and, if not, the causes and effects of untimely redistributions. We did not test contract costs because we found during preliminary research that EPA monitored the "WQ" contract costs and redistributed them timely.

We used the monetary unit method of statistical sampling to select undistributed "WQ" payments for testing. We conducted sample testing of cooperative agreements and small purchases in Regions 4 and 5. We gathered additional information in Region 7 because it had unfavorable cooperative agreement terms with its recipients that prevented timely "WQ" redistributions. For testing interagency agreements, we selected a statistical sample from the universe of undistributed "WQ" costs in all locations. The resulting samples included "WQ" costs from Headquarters and Regions 1, 4, 5, and 9. The Headquarters interagency agreement samples covered activities in Regions 1, 2, 3, 4, 5, 7, and 10.

We assessed EPA's internal controls related to obligating, disbursing, and redistributing "WQ" costs. We gained an understanding of the internal controls through interviews of finance office and grant management personnel, Superfund project officers, and cooperative agreement recipients. We also reviewed internal controls by examining supporting documentation for selected "WQ" disbursement transactions. We did not review the internal controls over EPA's Integrated Financial Management System from which we obtained data reports, but relied on the review conducted during the audit of EPA's fiscal year 2005 financial statements. For our current review we identified deficiencies in internal controls and recommended improvements.

Although there were no prior reports on Superfund cost recovery related directly to the "WQ" general site identifier, we reviewed the following five EPA OIG reports related to cost recovery and management of assistance agreements:



<b>Prior Reports Reviewed</b>		
<b>Report Title</b>	<b>Report No.</b>	<b>Date</b>
EPA Can Better Manage Superfund Resources	2006-P-00013	February 28, 2006
EPA Managers Did Not Hold Supervisors and Project Officers Accountable for Grants Management	2005-P-00027	September 27, 2005
Additional Efforts Needed to Improve EPA's Oversight of Assistance Agreements	2002-P-00018	September 30, 2002
Superfund Consolidated Cooperative Agreement Awarded to Ohio EPA	2000-P-00020	September 15, 2000
Superfund "ZZ" Accounts	E1SFF2-11-0051-3100266	July 2, 1993

We reviewed EPA's internal study released in April 2004, *SUPERFUND: Building on the Past, Looking to the Future*, commonly known as the 120-Day Study, that made recommendations for improving Superfund. The 120-Day Study did not identify any findings or recommendations directly related to the "WQ" general site identifier.

## ***Undistributed “WQ” Costs by Region and Funding Vehicle***

The table below illustrates the undistributed “WQ” costs by region and funding vehicle at the beginning and end of our audit and the subsequent date of May 12, 2006.<sup>4</sup>

Region	Undistributed “WQ”			(Decrease) Increase in “WQ” January 2006 to May 12, 2006
	January 2006	March 2006	May 12, 2006 (Unaudited)	
<b>Cooperative Agreements</b>				
Region 1	\$545,825	\$304,400	\$0	\$(545,825)
Region 2	0	0	0	0
Region 3	0	0	0	0
Region 4	11,900,245	33,864	0	(11,900,245)
Region 5	16,894,959	17,299,651	7,343,954	(9,551,005)
Region 6	0	0	0	0
Region 7	2,141,975	816,857	73,277	(2,068,698)
Region 8	0	0	0	0
Region 9	0	0	0	0
Region 10	49,423	0	0	(49,423)
	<b>\$31,532,427</b>	<b>\$18,454,772</b>	<b>\$7,417,231</b>	<b>\$(24,115,196)</b>
<b>Interagency Agreements</b>				
Region 1	\$593,716	\$51,000	\$51,000	\$(542,716)
Region 2	480,215	468,351	562,144	81,929
Region 3	42,308	42,308	42,352	44
Region 4	816,549	82,332	16,532	(800,017)
Region 5	493,126	413,126	213,126	(280,000)
Region 6	50,057	1,126	1,126	(48,931)
Region 7	41,475	6,475	0	(41,475)
Region 8	740,901	252,821	53,023	(687,878)
Region 9	306,976	180,935	182,587	(124,389)
Region 10	67,615	67,615	74,070	6,455
HQ	2,532,315	2,532,315	2,589,268	56,953
	<b>\$6,165,253</b>	<b>\$4,098,404</b>	<b>\$3,785,228</b>	<b>\$(2,380,025)</b>
<b>Small Purchases</b>				
Region 1	\$25,455	\$32,858	\$27,581	\$2,126
Region 2	0	0	0	0
Region 3	11,145	11,145	11,145	0
Region 4	872,108	830,812	840,222	(31,886)
Region 5	493,474	493,474	493,474	0
Region 6	0	0	0	0
Region 7	65,589	65,083	65,083	(506)
Region 8	293,481	262,456	262,456	(31,025)
Region 9	32,638	32,638	32,638	0
Region 10	5,000	5,000	5,000	0
	<b>\$1,798,890</b>	<b>\$1,733,466</b>	<b>\$1,737,599</b>	<b>\$(61,291)</b>
<b>Totals</b>	<b>\$39,496,570</b>	<b>\$24,286,642</b>	<b>\$12,940,058</b>	<b>\$(26,556,512)</b>

<sup>4</sup> Subsequent to our audit, EPA provided updated data reports for undistributed “WQ” costs as of May 12, 2006. We did not audit this data.

## ***Causes of Untimely Redistributions by Applicable Location and Funding Vehicle***

<b>Causes of Untimely Redistributions</b>	<b>Applicable Locations and Types of Funding Vehicles</b>		
	<b>Cooperative Agreements</b>	<b>Interagency Agreements</b>	<b>Small Purchases</b>
EPA did not:			
Establish procedures or set timeliness standards for redistributions.	Regions 4, 5	Regions 1, 4, 5, 9, and HQ*	Regions 4, 5
Consistently monitor the "WQ" amounts.	Regions 4,5	Regions 1, 4, 5, 9, and HQ	Region 4
Provide training in the "WQ" cost redistribution process.	Regions 4, 5	Regions 1, 4, 5, 9, and HQ	Region 4
Establish "WQ" performance standards for project officers and hold them accountable for "WQ" redistributions.	Regions 4, 5	Regions 1, 4, 5, 9, and HQ	Region 4
Provide interagency agreement project officers a standard format for transmitting cost redistribution information to the Finance Center.		Regions 1, 4, 5, 9, and HQ	
Require cooperative agreement recipients to provide the site-specific cost detail needed for redistributions.	Region 5		
Establish a cooperative agreement condition requiring the recipient to provide timely site-specific cost detail.	Region 7		
Review undistributed "WQ" costs during the closeout process.	Region 5		

\* We reviewed five interagency agreements assigned to a Headquarters project officer that included activities for Regions 1, 2, 3, 4, 5, 7, and 10.

## ***Full Text of Agency Response***

July 13, 2006

### **MEMORANDUM**

**SUBJECT:** Response to OIG Audit "Superfund Could Improve its Redistribution to Specific Sites" dated May 22, 2006

**FROM:** Lorna McAllister, Director /s/  
Office of Financial Management

Milton Brown, Director /s/  
Office of Financial Services

Mike Cook, Director /s/  
Office of Site Remediation and Technology Innovation

Howard Corcoran, Director /s/  
Office of Grants and Debarment

**TO:** Paul C. Curtis, CPA, Director  
Financial Statement Audits

We appreciate the opportunity to respond to the findings and recommendations made in the audit report, "Superfund Could Improve its Redistribution to Specific Sites." Attached is our response to the specific audit findings and recommendations made in the report.

We would like to express our appreciation for the Office of Inspector General's recognition of various actions and initiatives taken by the OCFO to resolve current and prior bulk funding findings related to the redistribution of Superfund payments from the general site identifier (WQ) to specific sites.

If you have any questions concerning the audit response, please contact Ofelia Moore, Financial Policy and Planning Staff, at 564-4943.

Attachment

cc: Maryann Froehlich  
Josh Baylson  
Bill Samuels  
Art Budelier

Tina Vanpelt  
Iantha Gilmore  
Raffael Stein  
Alan Lewis  
Jim Wood  
Douglas Barrett  
Ofelia Moore  
Lorna McAllister  
Milton Brown  
David Bloom  
Krista Mainess  
Regional Comptrollers  
Regional Superfund Accountants  
Linda Yancey, OARM  
Johnsie Webster, OSWER  
Vince Velez, OECA  
Margaret Bastin  
Rita Wilson

## **EPA Responses to Specific Findings and Recommendations**

In general, all offices and regions agree with the findings and recommendations of the audit. EPA is aware of the need for timely site redistribution of the WQ accounts. Even before the audit began, regions had been working to close out old WQ balances on Cooperative Agreements, Simplified Acquisitions, and Interagency Agreements. Due to the consolidation of duties for processing these transactions at the EPA finance centers, EPA is now taking an opportunity to streamline and standardize the financial policies and procedures in the Las Vegas, Cincinnati, and Research Triangle Park finance centers. In addition, the Office of Financial Management (OFM) is in the process of updating the Resource Management Directive Systems 2550D (RMDS) to consolidate financial and accounting policies into one manual. This will allow us to update and expound on the WQ portion of the Comptroller Policy Announcement 96-01 – Superfund Site Specific Accounting.

### **A. OIG Findings and EPA Responses**

#### **1. EPA Did Not Timely Redistribute WQ Site Costs**

EPA did not make timely redistributions of Superfund cooperative agreements, interagency agreements, and small purchase payments from the general site identifier WQ to the specific Superfund sites or other general site identifiers. As of January 2006, the undistributed WQ for those funding vehicles totaled \$39 million. However, by May 12, 2006, the total was tremendously reduced by \$26 million to \$13 million.

**EPA concurs with this finding.**

#### **2. Untimely Redistributions Impact Cost Recovery**

Superfund costs not redistributed to specific sites may not be considered in settlement negotiations and oversight billings. Therefore, these funds may not be recovered from responsible parties and be available for future site cleanup activities. Consistent and accurate site-specific charging strengthens the program's cost recovery by ensuring that potentially responsible parties pay their fair share of site cleanup costs.

According to EPA Comptroller Policy Announcement No. 96-01, the Agency needs financial information at the site level to perform analyses and make resource management decisions. When Superfund costs are not redistributed to specific sites, Agency management may not have the accurate financial information it needs.

**EPA concurs with this finding.**

## B. Agency Actions to Date

EPA began corrective action on these findings before issuance of the OIG report, as outlined below:

- EPA agreed to establish written procedures for the WQ cost redistribution process.
- EPA is working with cooperative agreement recipients to change a programmatic condition allowing the recipient to provide site-specific cost detail only once every 6 months to a more favorable condition requiring the recipient to provide the information on a more timely basis.
- Subsequent to the IG's audit, EPA provided data reports as of May 12, 2006 that indicated further reductions in the undistributed WQ costs from \$39 million to \$13 million or a 67% drop from the start of the audit. Most of the reduction occurred in cooperative agreements where Region 4 redistributed \$12 million WQ costs to the appropriate site identifier.
- The Cincinnati Finance Center worked with interagency agreement Project Officers to reduce the undistributed interagency agreement WQ costs from \$6 million to \$4 million.
- Region 5 began requiring cooperative agreement recipients to provide detailed site identifier cost information when the recipients draw down funds.

## C. OIG Recommendations and EPA Planned Corrective Actions

We recommend that OCFO, OSWER, and OARM:

1. As agreed, develop written procedures for implementing EPA's Superfund site-specific accounting policies related to the general site identifier WQ, including a timeliness standard for redistributions for each funding vehicle, an explanation of project officers' responsibilities, monitoring procedures, and WQ cost reviews at the time of closeout. Develop a standard format for project officers of interagency agreements to transmit cost redistribution information to the Cincinnati Finance Center.

***EPA Corrective Action: For all funding vehicles, OCFO will or has begun drafting appropriate WQ accounting policies to enhance the Comptroller Policy Announcement 96-01. WQ redistribution procedures will be incorporated into Chapter 4 "Direct Site Charging" of the RMDS 2550D, also known as "Financial Management of the Superfund Program," which is in the process of being updated by OCFO/OFM. OCFO/OFS is also developing standard operating procedures for simplified acquisitions similar to Superfund contracts for the processing of payments.***

**Milestone Date: October 2006**

**Responsible Office: OCFO**

2. Evaluate the need for training on WQ redistribution procedures for each type of funding vehicle and provide the appropriate level of training to the responsible personnel.

***EPA Corrective Action:*** OSWER and OARM, in cooperation with OCFO/OFM, will evaluate the need for training on WQ redistribution procedures for each type of funding vehicle. OCFO/OFM has provided OARM with project officer training materials for IAGs to include in its on-line officer training course.

**Milestone Date:** November 2006

**Responsible Office:** OSWER, OARM

3. Continue working with the regions to redistribute the historical costs remaining in the WQ site identifier.

***EPA Corrective Action:*** EPA has prioritized this issue in order for the balances to come in line with current WQ payments only and is working with States and other Agencies to ensure compliance. For instance, Region III has a small backlog that they plan to eliminate. Region V is working to eliminate the backlog before the Cooperative Agreement processing migrates to OFS/LV this winter and has already redistributed \$9.6 million. Region V is also committed to redistributing the balance of \$7.3 million by December 2006, having obtained the cooperation of its recipients to provide the necessary site-specific cost detail. OCFO/OFS has aggressively worked to redistribute simplified acquisition backlog and has provided the regions with reports for their use in eliminating their own backlog. The Las Vegas Finance Center, in coordination with the regions and grant recipients, has already redistributed to the correct sites all outstanding cooperative agreement WQ balances for the regions it services.

**Milestone Date:** Ongoing

**Responsible Offices:** OCFO, OARM, and OSWER

4. Continue working to change the cooperative agreement conditions to require the recipient to provide site-specific cost details within 24 hours of drawing down funds, and enforce those conditions.

***EPA Corrective Action:*** OCFO and OSWER are currently working together to agree on the time frame to provide site specific cost details within one business day of the payment draw down. This will include providing the award officials with appropriate programmatic terms and conditions to be included in future grants. OCFO has updated the Cooperative Agreement WQ site distribution policy which is being included in a draft of Chapter 9, RMDS on Cooperative Agreements and has updated the chapter to address the OIG's recommendation.

**Milestone Date:** October 2006

**Responsible Offices:** OCFO, OARM/OGD, Regional Grants Management offices and OSWER



5. Amend the closeout process for cooperative agreements to include procedures to verify that WQ costs are redistributed.

***EPA Corrective Action:*** OCFO, OARM, and OSWER will coordinate changes in closeout procedures to ensure and verify that WQ costs are redistributed. OCFO, and OSWER are in the process of amending the latest draft of 2550D Chapter 9 to include language that would require all WQ payments to be redistributed at the time of Grants closeout.

**Milestone Date:** October 2006  
**Responsible Office:** OCFO, OSWER

6. Promote accountability for WQ redistributions among project officers and finance office personnel.

***EPA Corrective Action:*** OCFO, OARM, and OSWER will issue guidance that assigns specific responsibilities to ensure that WQ costs are redistributed in a timely manner. As discussed above, OCFO, OARM, and OSWER will promote such accountability through the update and revision of relevant policies and the evaluation of training needs on an ongoing basis. OCFO/OFS will continue to monitor WQ payment balances for all funding vehicles on at least a quarterly basis to ensure that appropriate project officers and grantees are held accountable.

**Milestone Date:** November 2006 and Ongoing  
**Responsible Offices:** OCFO, OARM and OSWER

## ***Distribution***

Office of the Administrator  
Assistant Administrator for Solid Waste and Emergency Response  
Assistant Administrator for Administration and Resources Management  
Associate Administrator for Congressional and Intergovernmental Relations  
Associate Administrator for Public Affairs  
Director, Office of Financial Management  
Director, Office of Site Remediation and Technology Innovation  
Director, Office of Grants and Debarment  
Audit Liaison, Office of the Chief Financial Officer  
Audit Liaison, Office of Solid Waste and Emergency Response  
Audit Liaison, Office of Administration and Resources Management  
Agency Followup Official (the CFO)  
Agency Followup Coordinator  
General Counsel  
Regional Administrators (1-10)  
Assistant Regional Administrators (1-10)  
Regional Comptrollers (1-10)  
Audit Followup Coordinators, Regions (1-10)  
Acting Inspector General