



U.S. ENVIRONMENTAL PROTECTION AGENCY
OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Audit Report

Follow-up on Audit of Undistributed Site Costs Finds Corrective Actions Not Complete

Report No. 08-P-0236

August 25, 2008

Report Contributors:

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Abbreviations

CFO	Chief Financial Officer
EPA	U.S. Environmental Protection Agency
MATS	Management Audit Tracking System
OARM	Office of Administration and Resources Management
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
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 sought to determine (1) the status of corrective actions taken in response to an Office of Inspector General report, *EPA Could Improve Its Redistribution of Superfund Payments to Specific Sites*, issued in July 2006; and (2) whether the Action Official sufficiently documented and certified the corrective actions.

Background

Audit follow-up is essential to good management and improving the efficiency and effectiveness of U.S. Environmental Protection Agency (EPA) programs and operations. EPA has audit follow-up procedures and designated officials who manage this process. EPA Manual 2750 requires EPA to form a corrective action plan and complete the actions by the agreed upon milestone dates. In our prior report, we noted that EPA did not timely redistribute Superfund payments from a general site identifier 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/2008/20080825-08-P-0236.pdf

Follow-up on Audit of Undistributed Site Costs Finds Corrective Actions Not Complete

What We Found

EPA initiated some corrective actions in response to our prior report on undistributed site costs, but did not complete them. Also, EPA did not maintain accurate information in the Management Audit Tracking System.

Management control weaknesses contributed to a breakdown in the audit follow-up process. EPA did not document formal work assignments for audit follow-up and maintain accountability. EPA did not consistently monitor audit follow-up activities, communicate follow-up status among program offices and obtain follow-up agreements, and document work completion. The policies and procedures in EPA Manual 2750 are the design framework for EPA's internal controls over the audit follow-up process. Since EPA did not complete the corrective actions, its financial management and environmental protection efforts could be impacted. Superfund costs not redistributed appropriately from a general site identifier to specific sites 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 clean-up activities.

Because EPA did not complete the corrective actions, we could not fully address our second audit follow-up objective, which was to determine whether the Action Official sufficiently documented the corrective actions and certified them, as required by EPA Manual 2750.

What We Recommend

We recommend that EPA make formal work assignments, document the assignments, and hold assignees accountable. EPA also needs to monitor audit follow-up activity, communicate among program offices, document work progress, and elevate future disagreements for resolution. Further, we recommend that EPA resolve an interagency agreement redistribution problem and redistribute interagency agreement costs of \$4.9 million, including \$1.8 million in additional costs recorded after May 12, 2006, and redistribute \$2.8 million cooperative agreement costs to the correct general and site specific identifiers. In response to the draft report, EPA agreed with all our recommendations and its proposed corrective actions should address our recommendations.



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

OFFICE OF
INSPECTOR GENERAL

August 25, 2008

MEMORANDUM

SUBJECT: Follow-up on Audit of Undistributed Site Costs
Finds Corrective Actions Not Complete
Report No. 08-P-0236

FROM: Paul Curtis 
Director, Financial Statement Audits

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 follow-up audit to our July 2006 report, *EPA Could Improve Its Redistribution of Superfund Payments to Specific Sites*, 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 determinations 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 \$107,088.

Action Required

In accordance with EPA Manual 2750, you are required to provide a written response to this report within 90 calendar days. You should include a corrective actions plan for agreed upon actions, including milestone dates. Please e-mail an electronic version of your response that complies with Section 508 of the Rehabilitation Act to Meg Bastin at bastin.margaret@epa.gov. We have no objections 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 me at (202) 566-2523 or curtis.paul@epa.gov, or Meg Bastin at (513) 487-2366 or bastin.margaret@epa.gov.

Table of Contents

Purpose	1
Background	1
<i>Audit Follow-up</i>	1
<i>Summary of July 2006 Audit Report</i>	2
<i>Responsible Offices</i>	3
Noteworthy Achievements	3
Scope and Methodology	3
Results of Follow-up Audit	4
<i>Corrective Actions Not Completed</i>	4
<i>Incorrect Information in MATS</i>	6
<i>Costs Redistributed to Incorrect Site Identifier</i>	6
Conclusion	6
Recommendations	7
Agency Response and OIG Evaluation	7
Status of Recommendations and Potential Monetary Benefits	9

Appendices

A	Audit Management Responsibilities	10
B	Status of Corrective Actions	11
C	Details on Scope and Methodology	13
D	EPA Response to Draft Report	14
E	Distribution	24

Purpose

The purpose of this review was to evaluate the status of corrective actions taken by the U.S. Environmental Protection Agency (EPA) in response to the Office of Inspector General (OIG) report, *EPA Could Improve Its Redistribution of Superfund Payments to Specific Sites*, issued July 31, 2006. Our objectives were to determine whether:

- The Agency took adequate corrective action.
- The Action Official sufficiently documented the corrective actions and certified them as required by EPA Manual 2750.

Background

Audit Follow-up

The Inspector General Act of 1978 established OIGs in Federal agencies to conduct independent audits and investigations of agency programs and operations, and make recommendations to improve their efficiency and effectiveness. Amendments to the Act in 1988 directed agencies to report to Congress semiannually on the status of follow-up on OIG audit report recommendations.

Office of Management and Budget (OMB) Circular A-50 specifies certain timeframes for audit resolution and requires agencies to develop systems to ensure prompt implementation of audit recommendations. According to OMB Circular A-50, audit follow-up is essential to good management and is a shared responsibility of agency managers and audit organizations.

EPA's policy and procedures on the audit follow-up process are in EPA Manual 2750, most recently revised in 1998. EPA Manual 2750 implements OMB Circular A-50 and the Inspector General Act Amendments of 1988. The Manual specifies a chain of responsibility for the audit management process, starting with the Chief Financial Officer (CFO) as the Agency's designated Audit Follow-up Official. According to EPA Manual 2750, the Agency's Audit Follow-up Official has "personal responsibility" for Agency-wide audit resolution. The Action Official certifies that corrective actions are complete. Appendix A provides more details on audit management responsibilities.

OIG reports usually contain recommendations for Agency Action Officials to take corrective actions to address the findings and conclusions of the report. When the Agency and the OIG agree on the corrective actions, this decision is documented in the Management Decision letter. EPA Manual 2750 requires actions to be completed within 365 days of the management decision, or otherwise explain reasons for delay.

The Office of the Chief Financial Officer (OCFO), with the CFO as the Agency Audit Follow-up Official, maintains and operates the Management Audit Tracking System (MATS) to track audit follow-up, report, and resolution dates, and corrective actions

Agency-wide. However, OCFO only requires limited information to be entered into MATS, including milestone dates, financial information (if applicable), and explanations for missed deadlines. Further details on the status and actions taken to implement corrective actions must be documented by the Action Official's office. This information is essential for the Agency to assess and certify that agreed-to actions are completed.

According to EPA Manual 2750, official files are required to include seven major elements:

- Names of Action Official and other parties responsible for implementing, tracking, following up, and reporting on corrective actions
- Draft reports
- Responses to draft reports
- Final reports
- Approved Management Decisions
- OIG Management Decision acceptance memoranda
- All pertinent documentation and certification information

Together, MATS and official files document an audit's history, as well as the actions taken by the Agency to address recommendations and correct deficiencies.

Managers are responsible for good internal control, according to *Standards for Internal Control in the Federal Government*, issued November 1999 by the U.S. Government Accountability Office. Management should design internal controls to ensure that ongoing monitoring occurs. Monitoring of internal controls should include policies and procedures to ensure that management promptly resolves findings of audits and other reviews. Managers are to (1) promptly evaluate findings from audits and other reviews, including those showing deficiencies and recommendations reported by auditors; (2) determine proper actions in response to findings and recommendations from audits and reviews; and (3) complete, within established time frames, all corrective actions or otherwise resolve the matters brought to management's attention.

Summary of July 2006 Audit Report

In our July 2006 report, we noted that EPA did not make timely redistribution of payments on Superfund cooperative agreements, interagency agreements, and small purchases from the general site identifier "WQ" to the specific Superfund sites or other general site identifiers. As of May 12, 2006, \$13 million was recorded in "WQ" for those funding vehicles. Superfund costs not redistributed appropriately to specific sites 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 clean-up activities.

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. 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.

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, include a review of undistributed “WQ” costs in the cooperative agreement closeout process, and hold project officers accountable for their “WQ” responsibilities.

We recommended that EPA (1) develop written “WQ” procedures, including timeliness standards and monitoring procedures; (2) provide training; (3) redistribute the remaining historical “WQ” costs; (4) change cooperative agreement conditions to require recipients to provide cost details within 24 hours of drawing down funds; (5) amend the closeout process for cooperative agreements to include “WQ” procedures; and (6) promote accountability for “WQ” redistributions among project officers and finance office personnel. Appendix B provides EPA’s corrective action plan, agreed-upon milestone dates, and status of corrective actions.

Responsible Offices

Three EPA offices have primary responsibility for the areas covered in the subject report and the related audit follow-up. 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 administration of grants and cooperative agreements.

Noteworthy Achievements

EPA personnel at EPA finance centers in Las Vegas, Nevada, and Research Triangle Park, North Carolina, implemented procedures that significantly decreased the undistributed “WQ” costs for cooperative agreements and small purchases. See Table 1 later in this report for the undistributed “WQ” costs by funding vehicles and the resulting decreases and increases.

Scope and Methodology

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We conducted our audit from January 16, 2008, through February 25, 2008. Appendix C contains a more extensive discussion on our scope and methodology.

Results of Follow-up Audit

EPA initiated some corrective actions to develop written procedures, provide training, and redistribute the historical “WQ” costs, but did not complete them and did not maintain accurate information in MATS. Also, EPA distributed some costs to an incorrect site identifier. The policies and procedures in EPA Manual 2750 are the design framework for EPA’s internal controls over the audit follow-up process. However, management control weaknesses contributed to a breakdown in the audit follow-up process:

- EPA did not document formal work assignments for audit follow-up and maintain accountability.
- EPA did not consistently monitor audit follow-up activities, communicate follow-up status among program offices and obtain follow-up agreements, and document work completion.
- Personnel within OCFO and OSWER did not resolve a disagreement affecting interagency agreement redistributions and delayed the corrective action.

Because EPA did not complete the corrective actions, its financial management and environmental protection efforts were impacted. Superfund costs not redistributed appropriately to specific sites 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 clean-up activities.

Because EPA did not complete the corrective actions, we could not fully address our second audit follow-up objective, which was to determine whether the Action Official sufficiently documented the corrective actions and certified them, as required by EPA Manual 2750.

Corrective Actions Not Completed

EPA did not complete the eight actions it planned to take in response to our 2006 report. As of March 31, 2008, EPA was 16 months past the milestone dates of October/November 2006 and 20 months past the management decision date of July 31, 2006, without completing the actions. Appendix B provides the status of corrective actions.

While EPA significantly decreased the undistributed historical “WQ” costs for cooperative agreements and small purchases, “WQ” costs increased for interagency agreements. “WQ” costs for interagency agreements increased from May 12, 2006,¹ to December 31, 2007, by a net \$1,081,507, to \$4,866,735. The total includes a remaining amount of \$2,993,960 that we reported on previously and additional costs charged to “WQ” of \$1,872,775 since May 12, 2006. Table 1 illustrates the undistributed “WQ” costs by funding vehicle at May 12, 2006, and December 31, 2007, and the amount of increase or decrease.

¹ We reported the May 12, 2006, undistributed “WQ” costs in the prior audit report based on EPA’s updated data reports. We did not audit this data.

Table 1: Undistributed “WQ” Costs

Funding Vehicle	Undistributed “WQ”		(Decrease) / Increase in “WQ” May 12, 2006 to December 31, 2007
	May 12, 2006 (Unaudited)	December 31, 2007	
Cooperative Agreements	\$7,417,231	\$337,502	\$(7,079,729)
Interagency Agreements	3,785,228	4,866,735	1,081,507
Small Purchases	1,737,599	707,723	(1,029,876)
Totals	\$12,940,058	\$5,911,960	\$(7,028,098)

Source: OIG analysis of EPA data obtained from the Financial Data Warehouse

A disagreement between OSWER and OCFO over the sufficiency of data submitted delayed the redistribution of the majority of interagency agreement “WQ” costs. By not resolving the dispute or elevating the issue to higher levels, corrective actions to decrease the balance of interagency agreement “WQ” costs were not completed.

Although EPA made significant progress on the corrective action to redistribute the historical “WQ” costs, the other corrective actions are incomplete. These actions are necessary to support timely “WQ” cost redistributions in the future. The incomplete actions include preparing written procedures, evaluating the need for training, revising cooperative agreement conditions and the closeout process, and promoting accountability among project officers and finance office personnel.

Management control weaknesses in audit follow-up contributed to the delay in the corrective actions. EPA did not comply with several internal control procedures designed for the audit follow-up process. EPA did not:

- Document formal work assignments for audit follow-up and maintain accountability. The MATS files had no record of individual assignments for audit follow-up.
- Monitor audit follow-up activities consistently, communicate follow-up status among program offices, and obtain follow-up agreements on corrective actions needed and the assignment of responsibility for the actions.
- Document the completion of work for corrective actions. The MATS files contained some e-mails regarding the redistribution of “WQ” costs, efforts on preparing written procedures, and training. However, the files did not have documentation to readily indicate the status of the corrective actions.
- Elevate an issue affecting the “WQ” redistributions for interagency agreements to a higher level of authority for resolution. OCFO and OSWER personnel were unable to resolve an issue about the allocation of Superfund costs to the proper sites and redistribute \$3.3 million “WQ” costs. Correspondence shows the issue has existed since 2002.

- Ensure corrective actions were implemented. For example, OCFO did not monitor the Cincinnati Finance Center's redistribution efforts and ensure that the historical "WQ" costs were redistributed.

When OIG inquired about the status of audit follow-up, EPA initiated an effort on January 31, 2008, to ascertain the current status. EPA provided an updated status on March 7, 2008, which proposed a new milestone completion date of September 30, 2008, for all the corrective actions.

Incorrect Information in MATS

The status of a corrective action recorded in OCFO's MATS tracking system was not accurate. OCFO labeled the corrective action to redistribute the historical "WQ" costs as complete. However, the action was only partially complete. EPA had redistributed the historical "WQ" costs for cooperative agreements and small purchases, but not for interagency agreements. OCFO marked the action "complete" based solely on information about the cooperative agreement redistributions. OCFO did not have information at the time on the status of small purchases and interagency agreement redistributions. Therefore, OCFO did not comply with its control procedures for the Action Official to ensure that corrective actions are documented, tracked, and implemented, and for the Audit Follow-up Coordinator to ensure that responses to OIG reports are complete and timely. Accurate information is necessary for MATS to serve as a useful management tool.

Costs Redistributed to Incorrect Site Identifier

EPA redistributed some historical costs to an incorrect site identifier. Region 5 finance personnel redistributed \$5.4 million of cooperative agreement "WQ" costs on May 8, 2006, based on an assistance adjustment notice. The redistribution helped reduce the undistributed "WQ" costs reported as of May 12, 2006, in the audit report. Region 5 recorded the costs to the "ZZ" site identifier used for preliminary site assessment, which precluded cost recovery. However, the site cost detail subsequently received on October 4, 2006, revealed \$1.3 million site-specific costs and \$1.5 million indirect costs. Region 5 should have redistributed the \$2.8 million costs in October 2006 to specific site identifiers and the "00" identifier for indirect costs to make the costs available for potential cost recovery. EPA Comptroller Policy Announcement 93-02 requires that all financial transactions recorded in the accounting system be supported by adequate source documentation. EPA did not comply with this control procedure when it recorded the redistribution without adequate support.

Conclusion

EPA did not complete the corrective actions it planned to take in response to our 2006 report. Management control weaknesses in the audit follow-up process delayed EPA's actions to implement OIG recommendations and improve its programs. EPA needs to improve its audit follow-up process and complete the corrective actions for our 2006 report. Because EPA did not complete the corrective actions, its financial management and environmental protection efforts

were impacted, and funds may not be recovered from responsible parties and be available for future site clean-up activities.

Recommendations

We recommend that the Chief Financial Officer, the Assistant Administrator for Solid Waste and Emergency Response, and the Assistant Administrator for Administration and Resources Management take the following actions to complete the corrective actions for our July 2006 audit recommendations:

1. Make formal work assignments for corrective actions, document the assignments in the MATS files, and hold the individual assignees accountable.
2. Monitor audit follow-up activity, communicate the audit follow-up status among program offices, and document work progress and completion in the MATS files.
3. Resolve the issue that delayed the redistribution of interagency agreement costs.
4. Elevate future disagreements among Action Officials regarding corrective actions to the Agency Audit Follow-up Official (the Chief Financial Officer) for resolution.
5. Redistribute the interagency agreement “WQ” costs of \$4,866,735, including \$2,993,960 historical costs and \$1,872,775 additional costs recorded from May 12, 2006, to December 31, 2007.

Further, we recommend that the Chief Financial Officer:

6. Correct the May 8, 2006, entry to properly redistribute \$2.8 million cooperative agreement costs to the correct general and site specific identifiers.

Agency Response and OIG Evaluation

EPA agreed with all our audit recommendations and its proposed corrective actions should address our recommendations.

EPA submitted with its response to the draft report a revised corrective action plan and milestone dates for our July 2006 report, *EPA Could Improve Its Redistribution of Superfund Payments to Specific Sites*. EPA significantly adjusted the action plan by making changes to the corrective actions and revising the milestone dates from October/November 2006 to July 31, 2008, through November 30, 2008.² We believe the revised action plan addresses the recommendations. Therefore, in accordance with EPA Manual 2750, we approve EPA’s request to change the corrective action plan.

² On August 13, 2008 EPA again revised the corrective action plan to update the July 31, 2008, milestone dates to August 29, 2008.

EPA's complete response to the draft report, including its revised action plan for our July 2006 report, is in Appendix D.

Status of Recommendations and Potential Monetary Benefits

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date ²	Claimed Amount	Agreed To Amount
1	7	Make formal work assignments for corrective actions, document the assignments in the MATS files, and hold the individual assignees accountable.	O	Chief Financial Officer, Assistant Administrator for Solid Waste and Emergency Response, and Assistant Administrator for Administration and Resources Management	08/29/08		
2	7	Monitor audit follow-up activity, communicate the audit follow-up status among program offices, and document work progress and completion in the MATS files.	O	Chief Financial Officer, Assistant Administrator for Solid Waste and Emergency Response, and Assistant Administrator for Administration and Resources Management	08/29/08		
3	7	Resolve the issue that delayed the redistribution of interagency agreement costs.	O	Chief Financial Officer, Assistant Administrator for Solid Waste and Emergency Response, and Assistant Administrator for Administration and Resources Management	09/30/08		
4	7	Elevate future disagreements among Action Officials regarding corrective actions to the Agency Audit Follow-up Official (the Chief Financial Officer) for resolution.	C	Chief Financial Officer, Assistant Administrator for Solid Waste and Emergency Response, and Assistant Administrator for Administration and Resources Management	08/4/08		
5	7	Redistribute the interagency agreement "WQ" costs of \$4,866,735, including \$2,993,960 historical costs and \$1,872,775 additional costs recorded from May 12, 2006, to December 31, 2007.	O	Chief Financial Officer, Assistant Administrator for Solid Waste and Emergency Response, and Assistant Administrator for Administration and Resources Management	11/30/08	\$1,873	\$1,873
6	7	Correct the May 8, 2006, entry to properly redistribute \$2.8 million cooperative agreement costs to the correct general and site specific identifiers.	O	Chief Financial Officer	08/31/08	\$2,800	\$2,800

¹ 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

Appendix A

Audit Management Responsibilities

Title	Duties
Agency Audit Follow-up Official	<ul style="list-style-type: none"> • Ensures Agency-wide audit resolution and that systems for audit follow-up are in place • Ensures corrective actions are actually implemented • Designates an Agency Audit Follow-up Coordinator
Agency Audit Follow-up Coordinator	<ul style="list-style-type: none"> • Maintains and conducts quality assurance and analysis of the Agency audit tracking system and data • Prepares reports to Congress
Action Officials	<ul style="list-style-type: none"> • Implements the audited program (commonly the regional official or Assistant Administrator to whom the report is addressed) • Ensures that corrective actions are documented, tracked, and implemented • Certifies that corrective actions are complete (or designates a certifying official to do so)
Audit Management Officials	<ul style="list-style-type: none"> • Is designated in each regional and national program office • Develops and maintains office-specific procedures for audit follow-up and resolution • Designates office-specific Audit Follow-up Coordinators • Ensures managers and staff within their office understand the audit management process and take timely and appropriate corrective actions
Audit Follow-up Coordinators	<ul style="list-style-type: none"> • Serves as a contact point for OIG • Provides guidance and ensures that responses to OIG reports are complete and timely • Maintains official files containing the record of management decisions and certifications of completed corrective actions • Provides status reports to the Agency Audit Follow-up Coordinator on corrective actions and audit resolution, and tracks reasons for delay

Source: EPA Manual 2750

Appendix B

Status of Corrective Actions³

Corrective Action	Agreed Upon Milestone Date	Status
1-1. For all funding vehicles, OCFO will draft appropriate "WQ" accounting policies to enhance Comptroller Policy Announcement 96-01.	October 2006	Not complete. The policies are not yet written into the Resources Management Directive System (RMDS). OCFO projects it will complete the corrective action by September 30, 2008.
1-2. OCFO will incorporate "WQ" redistribution procedures into Chapter 4 "Direct Site Charging" in RMDS 2550D, Financial Management of the Superfund Program, which is in the process of being updated by OCFO/Office of Financial Management.	October 2006	Not complete. The policies are not yet written into the RMDS. OCFO projects it will complete the corrective action by September 30, 2008.
1-3. OCFO/Office of Financial Services will develop standard operating procedures for simplified acquisitions similar to Superfund contracts for the processing of payments.	October 2006	Not complete. Research Triangle Park Finance Center established procedures for simplified acquisitions, but EPA has not completed the written procedures for them.
2-1. OSWER and OARM, in cooperation with OCFO/Office of Financial Management, will evaluate the need for training on "WQ" redistribution procedures for each type of funding vehicle. OCFO/Office of Financial Management has provided OARM with project officer training materials for interagency agreements to include in its on-line officer training course.	November 2006	Partially complete. Research Triangle Park Finance Center provided some "WQ" training for project officers and contract officers at the annual Superfund Project Officer Contracting Officer Conference. OCFO needs to provide project officer training materials, and OSWER and OARM will provide training in future classes.
3-1. OCFO, OARM, and OSWER have 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. OCFO will work with the regions to redistribute the historical costs remaining in the "WQ" site identifier.	Ongoing	Partially complete. EPA has redistributed grants/cooperative agreements and small purchases, but not interagency agreements.

³ Appendix B reflects the audited Status of Corrective Actions as of February 25, 2008, the last day of audit field work. Subsequently, on March 7, 2008, EPA submitted an updated corrective action plan with a proposed milestone completion date of September 30, 2008, for all corrective actions. Appendix D has EPA's revised corrective action plan and milestone dates that it submitted on July 16, 2008. On August 13, 2008, EPA again revised the corrective action plan to update the July 31, 2008, milestone dates to August 29, 2008.

Corrective Action	Agreed Upon Milestone Date	Status
<p>4-1. 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 RMDS 2550D, Chapter 9, on cooperative agreements and has updated the chapter to address the OIG's recommendation.</p>	<p>October 2006</p>	<p>Not complete. Las Vegas Finance Center established requirements for its grant/cooperative agreement recipients to provide site specific cost details in one business day. However, EPA has not completed written procedures and has not updated terms and conditions of assistance agreements.</p>
<p>5-1. 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 RMDS 2550D, Chapter 9, to include language that would require all "WQ" payments to be redistributed at the time of grants closeout.</p>	<p>October 2006</p>	<p>Not complete. The policies are not yet written into the RMDS. OCFO projects it will complete the corrective action by September 30, 2008.</p>
<p>6-1. OCFO, OARM, and OSWER will issue guidance that assigns specific responsibilities to ensure that "WQ" costs are redistributed in a timely manner. 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/Office of Financial Services 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.</p>	<p>November 2006 and Ongoing</p>	<p>Not complete. The policies are not yet written into the RMDS. OCFO projects it will complete the corrective action by September 30, 2008.</p>

Source: OIG analysis of EPA data

Appendix C

Details on Scope and Methodology

We reviewed the status of EPA’s corrective actions taken in response to the OIG Report No. 2006-P-00027, *EPA Could Improve Its Redistribution of Superfund Payments to Specific Sites*, issued July 31, 2006. To determine the status of corrective actions, we interviewed Agency personnel in OCFO, OSWER, and OARM; reviewed audit follow-up information in the MATS database and MATS files; and obtained data reports of undistributed “WQ” costs for cooperative agreements, interagency agreements, and small purchases.

We tested a sample of redistributed “WQ” payments recorded from March 30, 2006, to December 31, 2007, to determine whether EPA charged the appropriate site identifiers and had proper supporting documentation for the redistributions. We used the monetary unit method of statistical sampling to select from all Servicing Finance Office locations a sample of cooperative agreements, interagency agreements, and small purchases.

We assessed the internal controls relevant to our objectives. We gained an understanding of the internal controls by reviewing OMB and EPA audit follow-up guidance and interviewing personnel at Headquarters, regional offices, program offices, and finance centers. We did not review the internal controls over EPA’s Financial Data Warehouse from which we obtained data reports, but relied on the OIG’s review performed during the audit of EPA’s Fiscal Year 2007 financial statements.

Since EPA did not complete the corrective actions, we could not fully address our second audit follow-up objective to determine whether the Action Official sufficiently documented the corrective actions and certified them, as required by EPA Manual 2750.

We also reviewed two prior OIG evaluation reports on audit follow-up (see Table 2). These reports covered EPA’s audit follow-up processes in the Office of Water, Office of Enforcement and Compliance Assurance, and Office of Air and Radiation.

Table 2: Prior Audit Coverage

Report Title	Report No.	Date
<i>EPA’s Office of Air and Radiation Needs to Improve Compliance with Audit Follow-up Process</i>	08-P-0080	February 12, 2008
<i>EPA Can Improve Its Oversight of Audit Follow-up</i>	2007-P-00025	May 24, 2007

Source: OIG evaluation reports

Appendix D

EPA Response to Draft Report

July 16, 2008

MEMORANDUM

SUBJECT: Draft Audit Report: *Follow-up on Audit of Undistributed Site Costs Finds Corrective Actions Not Complete*, Assignment No. 2008-0040

FROM: Lorna M. McAllister, Director
Office of Financial Management

Milton Brown, Director
Office of Financial Services

Krista Mainess, Director
Office of Program Management

James E. Woolford, Director
Office of Superfund Remediation and Technology Innovation

Howard Corcoran, Director
Office of Grants and Debarment

TO: Melissa Heist, Assistant Inspector General for Audit
Office of Inspector General

This is in response to the May 14, 2008 memorandum on the draft audit report "*Follow-up on Audit of Undistributed Site Costs Finds Corrective Actions Not Complete, No 2008-0040.*" We concur with all audit recommendations except for recommendation number 4. Attached are our consolidated corrective action plans with milestones including the corrective actions and milestones for the original 2006 report, "EPA Could Improve Its Redistribution of Superfund Payments to Specific Sites, No. 2006-P-00027".

With regard to recommendation No. 4, the disagreement cited by the OIG remained at a level below the Action Officials and was resolved by lower level management between the two offices. Therefore, we do not believe there is a need to elevate this disagreement to the Agency Audit Follow-up Official.

If you or your staff have any questions or need additional information concerning this response, contact Iantha Y. Gilmore at 202-564-7654.

Attachment

cc: Lyons Gray
Maryann B. Froehlich
Melissa Heist
Joshua Baylson
Susan Dax
Raffael Stein
James Wood
Paul Curtis
Bill Samuel

August 4, 2008

MEMORANDUM

SUBJECT: Amendment: July 16th Response to Draft Audit Report: *Follow-Up Audit of Undistributed Site Costs Funds Corrective Actions Not Complete, Assignment No. 2008-0040.*

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

Howard Corcoran, Director
Office of Grants and Debarment

TO: Melissa Heist, Assistant Inspector General for Audit
Office of Inspector General

As you know, your office conducted an exit conference to provide feedback on the July 16th written response to the Draft Audit Report: *Follow-Up Audit Undistributed Site Costs Funds Corrective Actions Not Complete, Assignment No. 2008-0040.* Based on this feedback, the original response to Recommendation #4 which states: Elevate future disagreements among Action Officials regarding corrective actions to the Agency Audit Follow-up Officials (the Chief Financial Office) for resolution] will be revised to state the following:

“The Agency agrees to elevate future staff disagreements between offices to upper level management for resolution.”

If you have any questions, please have your staff contact Iantha Y. Gilmore on 202-564-7654.

ATTACHMENT

Background Information			
Name of Report:	Audit Report: Follow-up on Audit of Undistributed Site Costs Finds Corrective Actions Not Complete.		
Report Number and Date:	2008-0040, May 14, 2008		
Title of Finding			
Followup on Audit of Undistributed Site Costs Finds Corrective Actions Not Complete			
Recommendations & OCFO Corrective Actions			
1	Recommendation:	Make formal work assignments for corrective actions, document the assignments in the MATS files, and hold the individual assignees accountable.	
	Office Director:	Krista Mainess (OPM) Lora Culver (OMIS) Howard Corcoran (OGD)	POC Manager: Barbara Freggens (OPM) Johnsie Webster (OMIS) Bernie Davis-Ray (OARM)
	a. Summary of Corrective Action:	OARM/OGD, OCFO/OPM and OSWER/OMIS - Each Audit Follow-up Coordinator (Coordinator at each Program Office's Immediate Office level) will update MATS with a revised corrective action plan. The revised action plan will identify each Office's responsible Action Officer and will include updated plan actions, and new milestone dates.	
	b. Target Completion Date:	July 31, 2008 ²	c. Actual Date Completed:
Recommendations & OCFO Corrective Actions			
2	Recommendation:	Monitor audit followup activity, communicate the audit followup status among program offices, and document work progress and completion in the MATS files.	
	Office Director:	Krista Mainess (OPM) Lora Culver (OMIS) Howard Corcoran (OGD)	POC Manager: Barbara Freggens (OPM) Johnsie Webster (OMIS) Bernie Davis-Ray (OARM)
	a. Summary of Corrective Action:	OARM/OGD, OCFO/OPM and OSWER/OMIS – Each Audit Follow-up Coordinator will request a monthly progress report from each responsible project officer and will hold quarterly meetings to assure successful completion of the audit recommendations and will ensure that MATS is updated quarterly.	
	b. Target Completion Date:	July 31, 2008 ²	c. Actual Date Completed:
Recommendations & OCFO Corrective Actions			
3	Recommendation:	Resolve the issue that delayed the redistribution of interagency agreement costs.	
	Office Director:	James E. Woolford (OSRTI)	POC Manager: Barbara McDonough (OSRTI)
	a. Summary of Corrective Action:	OSRTI will complete development of internal procedures for performing site redistribution for its Project Officers. The procedures will include processes to ensure that its Project Officers know and communicate appropriate information to the appropriate Finance Center to enable the redistribution of WQ costs in a timely manner.	
	b. Target Completion Date:	September 30, 2008	c. Actual Date Completed:

Recommendations & OCFO Corrective Actions			
5	Recommendation:	Redistribute the interagency agreement "WQ" costs of \$4,866,735, including \$2,993,960 historical costs and \$1,872,775 additional costs recorded from May 12, 2006, to December 31, 2007.	
	Office Director:	Milton Brown (OFS) James E. Woolford (OSRTI)	POC Manager: Melvin Visnick (OFS) Barbara McDonough (OSRTI)
	a. Summary of Corrective Action:	OSRTI will provide data for its outstanding interagency agreement WQ disbursements through Budget Fiscal Year 2007 or documentation of reasons for outstanding unredistributed disbursements to OCFO/CFC no later than September 8, 2008. OCFO/CFC will enter redistributions from information received from OSRTI and other appropriate offices into IFMS by November 30, 2008.	
	b. Target Completion Date:	November 30, 2008	c. Actual Date Completed:
Recommendations & OCFO Corrective Actions			
6	Recommendation:	Correct the May 8, 2006, entry to properly redistribute \$2.8 million cooperative agreement costs to the correct general and site specific identifiers.	
	Office Director:	Milton Brown (OFS)	POC Manager: Melvin Visnick (OFS)
	a. Summary of Corrective Action:	Las Vegas Finance Center (LVFC) is working with Region 5 staff to correctly redistribute the costs to the correct site identifiers. Corrections will be completed.	
	b. Target Completion Date:	August 31, 2008	c. Actual Date Completed:

ATTACHMENT

(Note: Original response is in GREEN. Agency's updated response is in RED)

Background Information			
Name of Report:	Audit Report: EPA Could Improve Its Redistribution of Superfund Payments to Specific Sites		
Report Number and Date:	2006-P-00027, July 31, 2006		
Title of Finding			
EPA Could Improve Its Redistribution of Superfund Payments to Specific Sites			
Recommendations & OCFO Corrective Actions			
Recommendation:	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.		
Office Director:	Lorna McAllister (OFM) Milton Brown (OFS)	POC Manager:	Iantha Gilmore (OFM) Mel Visnick (OFS)
a. Summary of Corrective Action:	<p>For all funding vehicles, OCFO/OFM 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.</p> <p style="color: red;"><u>Change:</u> For all funding vehicles, OCFO/OFM is drafting an update to appropriate WQ accounting policies to include WQ redistribution procedures. Under OCFO's new numbering scheme for all for Superfund policies, Chapter 4 is now Chapter 2 of RMDS 2550D, "Direct Site Charging" also known as "Financial Management of the Superfund Program."</p> <p style="color: red;">New Target Date: July 31, 2008₂</p> <p>OCFO/OFS is also developing standard operating procedures for simplified acquisitions similar to Superfund contracts for the processing of payments.</p> <p style="color: red;">OCFO/OFS will provide this information for inclusion into the draft policy referenced above.</p> <p style="color: red;">New Target Date: July 31, 2008₂</p>		
b. Target Completion Date:	October 2006	c. Actual Date Completed:	

Recommendations & OCFO Corrective Actions				
2	Recommendation:	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.		
	Office Director:	James E. Woolford (OSRTI) Howard Corcoran (OGD) Lorna McAllister (OFM)	POC Managers:	Barbara McDonough (OSRTI) Jeanne Conklin (OGD) Iantha Gilmore (OFM)
	a. Summary of Corrective Action:	<p>OSWER/OSRTI and OARM/OGD, in cooperation with OCFO/OFM, will evaluate the need for training on WQ redistribution procedures for each type of funding vehicle.</p> <p>OCFO/OFM has provided OARM/OGD with project officer training materials for IAGs to include in its on-line officer training course.</p> <p>Change: OSWER/OSRTI and OARM/OGD will evaluate training needs for their staffs. OCFO/OFM will assist OSWER and OARM on an as requested basis.</p> <p>New Target Date: August 27, 2008</p>		
	b. Target Completion Date:	November 2006	c. Actual Date Completed:	
Recommendations & OCFO Corrective Actions				
3	Recommendation:	Continue working with the regions to redistribute the historical costs remaining in the WQ site identifier.		
	Office Director:	Milton Brown (OFS) Howard Corcoran (OGD) James E. Woolford (OSRTI)	POC Manager:	Melvin Visnick (OFS) Jeanne Conklin (OGD) Barbara McDonough (OSRTI)
	a. Summary of Corrective Action:	<p>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.</p> <p>Change: With the consolidation of all Agency grant payment services to the Las Vegas Finance Center, LVFC received additional grants that</p>		

		<p>lacked site specific cost detail. LVFC completed their research and eliminated the backlog of grants on 9/6/07.</p> <p>OCFO/OFS has assisted the Regions in distributing WQ costs. The Cincinnati Finance Center continues to work with OSRTI and the Regional Offices to obtain the data required to complete redistribution. Any current balance in WQ for contracts and small purchases under RTP's control represents ongoing payments (not part of the backlog) and are quickly redistributed.</p> <p>New Target Date: November 30, 2008</p>	
	b. Target Completion Date:	June 30, 2006	c. Actual Date Completed:
Recommendations & OCFO Corrective Actions			
4	Recommendation:	<p>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.</p>	
	Office Director:	<p>Lorna McAllister (OFM) James E. Woolford (OSRTI) Howard Corcoran (OGD)</p>	<p>POC Manager: Iantha Gilmore (OFM) Barbara McDonough (OSRTI) Jeanne Conklin (OGD)</p>
	a. Summary of Corrective Action:	<p>OCFO/OFM and OSWER/OSRTI 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.</p> <p>OCFO/OFM 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.</p> <p><u>Change:</u> OCFO, OARM and OSWER are currently working together to provide the award officials with the appropriate National programmatic term and condition to be included in future grants. OARM/OGD and OSWER/OSRTI will provide this information to OCFO/OFM for incorporation into the draft policy referenced in Recommendation No. 1.</p> <p>New Target Date: July 31, 2008₂</p> <p>OCFO/OFM will provide updates to the Cooperative Agreement WQ site distribution policy which is being included in the draft policy update referenced in Recommendation No. 1.</p> <p>New Target Date: July 31, 2008₂</p>	
	b. Target Completion Date:	October 2006	c. Actual Date Completed:

Recommendations & OCFO Corrective Actions				
5	Recommendation:	Amend the closeout process for cooperative agreements to include procedures to verify that WQ costs are redistributed.		
	Office Director:	Milton Brown (OFS) Howard Corcoran (OGD) James E. Woolford (OSRTI) Lorna McAllister (OFM)	POC Manager:	Mel Visnick (OFS) Jeanne Conklin (OGD) Barbara McDonough (OSRTI) Iantha Gilmore (OFM)
	a. Summary of Corrective Action:	<p>OCFO/OFS, OARM/OGD, and OSWER/OSRTI will coordinate changes in closeout procedures to ensure and verify that WQ costs are redistributed.</p> <p>OCFO/OFM and OSWER/OSRTI 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.</p> <p>Change: OSWER/OSRTI will provide updates to the OCFO/OFM draft policy update referenced in Recommendation No. 1 to include a requirement that all WQ payments to be redistributed at the time of Grants closeout. At present RMDS 2550D Chapter 9 (now Chapter 4 under the new numbering scheme) does not address WQ and is not being updated at this time.</p> <p>New Target Date: July 31, 2008₂</p>		
	b. Target Completion Date:	October 2006	c. Actual Date Completed:	
Recommendations & OCFO Corrective Actions				
6	Recommendation:	Promote accountability for WQ redistributions among project officers and finance office personnel.		
	Office Director:	Lorna McAllister (OFM) Howard Corcoran (OGD) James E. Woolford (OSRTI) Milton Brown (OFS)	POC Manager:	Iantha Gilmore (OFM) Jeanne Conklin (OGD) Barbara McDonough (OSRTI) Melvin Visnick (OFS)
	a. Summary of Corrective Action:	<p>OCFO/OFM, OARM/OGD, and OSWER/OSRTI will issue guidance that assigns specific responsibilities to ensure that WQ costs are redistributed in a timely manner. As discussed above, OCFO/OFM, OARM/OGD, and OSWER/OSRTI will promote such accountability through the update and revision of relevant policies and the evaluation of training needs on an ongoing basis.</p> <p>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.</p>		

		<p><u>Change:</u> OCFO/OFM draft policy referenced in Recommendation 1 will clarify roles and responsibilities to identify who is responsible for redistributing WQ costs and strengthen the timeframes by which the redistribution is to occur.</p> <p>New Target Date: July 31, 2008²</p>	
	b. Target Completion Date:	November 2006	c. Actual Date Completed:

Appendix E

Distribution

Office of the Administrator
Chief Financial Officer
Assistant Administrator for Solid Waste and Emergency Response
Assistant Administrator for Administration and Resources Management
Agency Follow-up Official (the CFO)
Agency Follow-up Coordinator
Office of General Counsel
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 Follow-up Coordinator, Office of the Chief Financial Officer
Audit Follow-up Coordinator, Office of Solid Waste and Emergency Response
Audit Follow-up Coordinator, Office of Administration and Resources Management
Deputy Inspector General