



Office of Inspector General
Audit Report

Resources Management Division
Superfund Division

**Audit of Superfund Consolidated
Cooperative Agreement Awarded to
Ohio Environmental Protection Agency
Under EPA Agreement No. V985687-01
October 1, 1997 through June 30, 2001**

Northern Audit Division

Report No. 2000-P-00020

September 15, 2000

Program Offices Involved:

**Resources Management
Division
Superfund Division**

**Inspector General Division
Conducting the Review:**

Northern Audit Division

Contributors to the Review:

**Michael Rickey
Robert Evans
Mara D'Andrea
Wendy Swan**

This audit report contains findings that describe problems the Office of Inspector General (OIG) has identified and corrective actions the OIG recommends. The report represents the opinion of the OIG and findings contained in this report do 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.



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
OFFICE OF THE INSPECTOR GENERAL
NORTHERN DIVISION
77 WEST JACKSON BOULEVARD
CHICAGO, IL 60604-3590

September 18, 2000

MEMORANDUM

SUBJECT: Report No. 2000-P-00020
Assistance Agreement No. V985687-01
Superfund Consolidated Cooperative Agreement
Awarded to Ohio Environmental Protection Agency

FROM: Michael A. Rickey
Audit Manager
Northern Audit Division

TO: Francis X. Lyons
Regional Administrator, Region 5

Introduction

We have completed an audit of Ohio Environmental Protection Agency's (Ohio or State) management of Superfund Consolidated Cooperative Agreement No. V985687-01. Our examination covered Ohio's performance from October 1, 1997 through September 30, 1999. EPA Region 5 awarded the cooperative agreement on September 30, 1997 and has amended it three times to increase the approved project costs to \$5,721,479 through June 30, 2001. The approved project costs include Federal assistance of \$5,528,747, and State matching costs of \$192,732.

The audit was performed as part of our statutory requirement to periodically audit a sample of cooperative agreements. The objectives of this audit were to determine if Ohio:

- exercised adequate controls through its financial management, accounting, procurement, and contract administration systems;
- complied with Federal regulations and cooperative agreement requirements; and
- achieved the objectives of the cooperative agreement.

The scope and methodology used for this audit are detailed in appendix 1.

Results in Brief

In general, Ohio was meeting the objectives of the cooperative agreement. However, Ohio needs to improve its reporting of financial and program results. Also, Ohio needs to improve its procedures for

drawing cash and meeting its cost sharing requirements under the agreement. While none of these weaknesses caused us to question costs at this time, corrective actions will lessen the risk that future costs might be disallowed. Our review disclosed:

- Ohio did not submit accurate or timely Financial Status Reports (financial report). This condition occurred because (1) Ohio believed that it was supposed to use a formula rather than report actual expenses, and (2) Ohio forgot to submit its reports for the period ending September 30, 1999. As a result, Region 5 was neither aware of the financial status of the program nor that Federal and State expenses were misstated.
- Ohio did not meet its 10 percent cost sharing requirement for core activities in fiscal 1998 and 1999. This condition occurred because Ohio: (1) did not have sufficient procedures to assure that it met its cost sharing obligation, and (2) misunderstood the cost sharing requirements. As of September 30, 1999, Ohio had under-matched core activity expenses by more than \$76,000.
- Ohio's Automated Clearing House (ACH) draws exceeded the Federal share of expenses under the cooperative agreement. This condition occurred because Ohio did not have an effective method to determine draws based on immediate needs. As a result, Ohio frequently carried excess cash balances at the end of the month. On a few occasions, Ohio did not request enough funds to cover expenses, resulting in a negative cash balance at the end of the month.
- Ohio did not always identify the site-specific activity being performed in its fiscal 1999 progress reports. This condition occurred because Ohio employees did not consistently identify the site-specific work performed on their electronic time cards. The time cards were the source documents used to identify all tasks performed under the cooperative agreement. As a result, Region 5 may not be able to recover more than \$45,000 of payroll costs from responsible parties because the specific tasks were not always identified.

Details on each of these findings and recommendations are contained in the Results of Audit section.

Summary of Ohio's and Region 5 Comments

On August 30, 2000, the Director of Ohio Environmental Protection Agency responded to the findings and recommendations in the draft report. In general, the State agreed with the findings and either agreed with the draft recommendations or agreed to work with Region 5 to resolve the issues. A complete copy of the State response is included in appendix 2.

The Regional Administrator for Region 5 also agreed with the draft recommendations and provided an action plan with milestone dates. A complete copy of the response is included in appendix 3.

OIG Evaluation

The Agency's proposed actions, when completed, will address the findings and recommendations in this report.

Results of Audit

Finding No. 1: *Financial Reporting Needs Improvement*

Ohio did not submit accurate or timely Financial Status Reports (financial report). This condition occurred because (1) Ohio believed that it was supposed to use a formula rather than report actual expenses, and (2) Ohio forgot to submit its reports for the period ending September 30, 1999. As a result, Region 5 was neither aware of the financial status of the program nor that Federal and State expenses were misstated.

As a recipient of EPA assistance agreement funds, Ohio is responsible for providing EPA with accurate financial reports within specific time frames. In the instructions for completing Financial Status Reports (Standard Form 269A), item 10a, the recipient is required to report total program outlays. Outlays are the sum of actual cash disbursements for direct costs for goods and services, the amount of indirect expenses, the value of in-kind contributions, and the amount of cash payments made to sub-recipients.

Title 40 CFR 35.6670 (July 1, 1997) requires recipients to file financial reports annually, due 90 days after the end of the Federal fiscal year or as specified in the cooperative agreement. The initial award, dated September 30, 1997, required Ohio to submit semiannual reports due April 30th and December 31st. The first amendment, dated September 30, 1998, changed the reporting requirement to an annual basis.

Ohio did not report the actual Federal and State expenses for its core activities (core program and Voluntary Action Program/brownfield core program). In most cases, Ohio reported less Federal expenses than actual and more State cost sharing than actual. For example, Ohio had actual Federal expenses of \$1,204,636 for the core program through September 30, 1999, but reported Federal expenses of only \$1,145,983. Thus the financial report understated Federal expenses by \$58,653. Regarding Ohio's cost sharing, the core program's actual State expenses were \$68,638 for the period ending September 30, 1999, but Ohio reported State expenses of \$127,291. Thus the financial report overstated the State's matching expenses by \$58,653. For the Voluntary Action Program/brownfield core program, Ohio reported less cost sharing than the amount recorded in the State accounting records.

For reporting purposes, Ohio used a formula rather than actual expenses which caused the misstatement of Federal and State expenses. State officials said that Region 5 grant specialists told them to report the Federal and State expenses based on the cooperative agreement's matching ratio of 90 percent Federal and 10 percent State. We contacted one of the two Region 5 employees identified by the State (the second employee is retired). The employee no longer works in the assistance section, but recalled meeting with State officials on several occasions. However, he could not recall telling the State to use the cost sharing ratio to report expenses, and believes that there may have been a mis-communication.

Regarding report timeliness, Ohio submitted the first two sets of financial reports timely. However, the reports for the period ending September 30, 1999 were not submitted until April 27, 2000, which was almost five months late. At the time of our fieldwork, Ohio officials stated that they had forgotten to submit the reports.

To adequately monitor cooperative agreement costs, it is essential that recipients submit accurate and timely financial reports. EPA uses these reports to compare actual costs against authorized funding

levels. Timely and accurate reports also allow EPA to make informed management decisions and better predict funding levels necessary to accomplish mission requirements. Because Ohio did not always submit accurate and timely reports, Region 5 was unaware that Ohio was using more Federal funds than reported and not meeting its cost sharing requirements.

Recommendation

We recommend that the Region Administrator clarify the reporting requirements for EPA financial assistance agreements to ensure that Ohio submits accurate and timely reports.

Finding No. 2: Cost Sharing Needs To Be More Timely

Ohio did not meet its 10 percent cost sharing requirement for core activities in fiscal 1998 and 1999. This condition occurred because Ohio: (1) did not have sufficient procedures to assure that it met its cost sharing obligation, and (2) misunderstood the cost sharing requirements. As of September 30, 1999, Ohio had under-matched core activity expenses by more than \$76,000.

Title 40 CFR, 35.6235 (July 1, 1997) requires recipients of core program funds to provide at least 10 percent of the direct and indirect costs of all activities covered by the core program. Item number 8 of the cooperative agreement’s terms and conditions requires Ohio to reconcile actual expenses for core activities and confirm that it has satisfied its 10 percent match at the conclusion of the annual budget period. Thus, Ohio was required to reconcile and confirm its 10 percent matching share at September 30, 1998, and September 30, 1999.

For the two fiscal periods ending September 30, 1998 and September 30, 1999, Ohio under- matched core activity expenses by \$76,285, as detailed in the table.

Activity	Recorded Expenses	Required Match	Recorded Match	Under-Match
FY 1998 Core	\$437,802	\$43,780	\$27,340	(\$16,440)
FY 1999 Core	\$835,472	\$83,547	\$41,298	(\$42,249)
FY 1999 VAP ¹ Core	\$186,728	\$18,673	\$1,077	(\$17,596)
Total	\$1,460,002	\$146,000	\$69,715	(\$76,285)

Ohio officials did not match every core activity transaction because many of them were small and matching each transaction would be very time consuming. Also, State officials were concerned that the cooperative agreement’s incremental funding might result in a shortage of Federal funds needed for payroll. If such a shortage ever occurred, Ohio would need to use State funds to meet payroll requirements. Consequently, Ohio monitored program spending for core activities on an after-the-fact basis. When expenses from the Federal account got too high, staff were instructed to charge their time to the State matching account. At some later point, staff were told to resume charging time to the

¹Voluntary Action Program/brownfield core program.

Federal account. For non-payroll expenses, Ohio made ad hoc decisions whether to charge the Federal account or State matching account.

Ohio officials also believed that they were not required to provide the matching share until the end of the cooperative agreement's budget period. Since the cooperative agreement had been amended each year to provide additional funding, the latest budget period was now October 1, 1997 to June 30, 2001. Accordingly, Ohio officials believed that the State would not have to satisfy its cost sharing requirement until June, 2001, which is almost four years after the initial award date. The State's interpretation, however, is contrary to the annual matching requirement specified in the cooperative agreement's terms and conditions. Further, Ohio's interpretation limits the amount of Federal and State funds available in a given fiscal period to accomplish various cooperative agreement activities.

Historically, EPA has funded core activities incrementally because funds were not always available to cover the entire core budget. In January 1999, Ohio was concerned that it might run out of core money before the balance of the Federal funds would become available. Region 5 informed the State that it could use enforcement or support funds available under the cooperative agreement to cover core expenses. The addition of the State match would have lessened the need to use Federal funds designated for other activities to cover core expenses. To ensure adequate funds are available to cover core activity costs, it is essential that recipients timely meet cost sharing requirements.

Recommendation

We recommend that the Regional Administrator ensures that Ohio reconciles and confirms its cost sharing requirements at the end of each annual budget period.

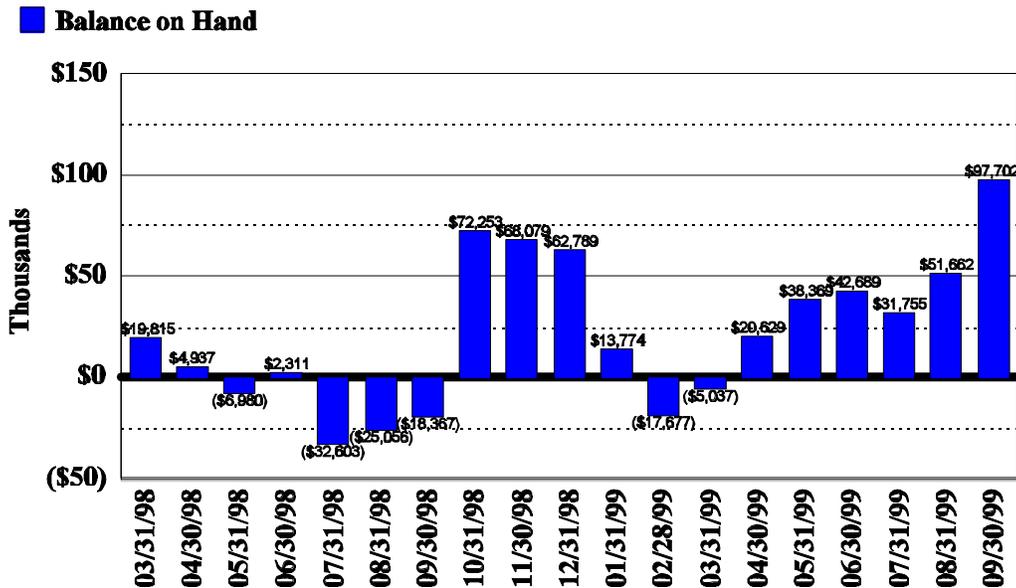
Finding No. 3: Controls for Cash Draws Need Improvement

Ohio’s Automated Clearing House (ACH) draws exceeded the Federal share of expenses under the cooperative agreement. This condition occurred because Ohio did not have an effective method to determine draws based on immediate needs. As a result, Ohio frequently carried excess cash balances at the end of the month.

The ACH payment system is an electronic funds transfer process, whereby recipients electronically receive funds authorized by an assistance agreement. The ACH payment system is designed to make Federal funds available to a recipient organization within 48 hours following the approval of the payment request. Therefore, the recipient should request funds based on immediate disbursement requirements and disburse funds as soon as possible to minimize the Federal cash on hand in accordance with policies established in Treasury Department Circular 1075, “Withdrawal of Cash from the Treasury for Advances under Federal Grant and Other Programs.”

The chart below illustrates the cash balance of Federal funds Ohio had on hand at the end of the month. The information was determined by comparing the monthly cash draws against the monthly expenses recorded in the accounting system. The monthly expense reports did not include a transaction date. Therefore, we could not determine the daily cash balance on hand. Further, we found no other data to forecast daily cash needs other than monthly expense reports.

**ACH Drawdown Monthly Available Balance
Enforcement, Support Agency, Core, Site Assessment
FY 1998 and 1999**



The chart illustrates that for 13 of the 19 months reviewed, Ohio maintained excess cash balances. During fiscal 1999, the chart shows that Ohio had excess Federal funds on hand for 10 of the 12 months, culminating with an on hand balance of \$97,702 as of September 30, 1999.

Ohio officials stated that cash draws were based on the previous payroll, an estimate of the next payroll, and other anticipated payments. Ohio officials believed that cash draws were always less than expenses. However, Ohio was not able to provide documentation to show how the amounts drawn were determined.

Ohio needs to develop better procedures to predict cash needs for the cooperative agreement. Better procedures would ensure that Ohio would not draw more funds than needed to cover the Federal share of expenses.

Recommendation

We recommend that the Regional Administrator require Ohio to develop an effective method for determining its cash needs.

Finding No. 4: *Reporting of Program Accomplishments Needs Improvement*

Ohio did not always identify the site-specific activity being performed in its fiscal 1999 progress reports. This condition occurred because Ohio employees did not consistently describe the site-specific work performed on their electronic time cards. The time cards were the source documents used to describe all tasks performed under the cooperative agreement. As a result, Region 5 may not be able to recover more than \$45,000 of payroll costs from responsible parties because the specific tasks were not always identified.

In the two fiscal 1999 progress reports, Ohio identified about 2,800 hours and \$64,000 of employee time charges for enforcement. However, there were no descriptions of work accomplishments for about 800 of the 2,800 hours reported. The 800 hours represent almost 29 percent of the total and were valued at \$18,412. For support activity, over 1,150 of the reported 2,730 hours did not include a description of work accomplishments. The hours without descriptions represented over 42 percent of the total hours charged and were valued at \$27,015.

Title 40 CFR 35.6650 (July 1, 1997) requires progress reports to include an explanation of work accomplished during the reporting period, delays, or other problems, if any, and a description of the corrective measures that are planned. For pre-remedial activities, the report must include a list of the site-specific products completed and the estimated number of technical hours spent to complete each product. Also, Ohio's electronic time card procedures require employees who perform site related work to provide a description of the work performed on their time cards.

Region 5 relies on State records to support claims against responsible parties for costs incurred for Superfund cleanup activities. Without complete and accurate data to support employee payroll costs, the Agency may not be able to recover all costs from responsible parties. Therefore, it is necessary for Ohio to ensure that all employee site related charges listed in the report summary include a description of the work accomplished.

Recommendation

We recommend that the Regional Administrator require Ohio to ensure that its employees provide the description of the work required on their time cards to support cost recovery efforts.

Scope and Methodology

Objective 1

Our first objective was to determine if Ohio exercised adequate controls through its financial management, accounting, procurement, and contract administration systems. To gain an understanding of Ohio's controls, we selected the Superfund consolidated cooperative agreement for our review. To accomplish this objective, we completed the following steps:

- Interviewed the Region 5 project officer for Ohio's cooperative agreement regarding roles and responsibilities.
- Reviewed national and regional guidance related to the award and administration of consolidated cooperative agreements.
- Interviewed Ohio officials and obtained State guidance related to its Superfund program.

Objective 2

Our second objective was to determine if Ohio complied with Federal regulations and cooperative agreement requirements. To accomplish this objective, we completed the following steps:

- Evaluated Ohio incurred costs, controls over contractor performance and billings, and controls over the Automated Clearing House cash draws.
- Analyzed the recorded and reported costs for core and support activities as reported on the Financial Status Reports, dated November 12, 1998.
- Reviewed personnel, fringe benefit, and indirect costs which accounted for over 90 percent of the total claimed costs.
- Used professional judgement to select pay periods in July, August, and September of 1998.
- Reviewed 100 percent of the transactions for the pay periods selected.
- Used professional judgement to select and examine a limited number of transactions for supplies and maintenance (rent), and purchased personal services (research consultant).
- Selected rent because it was charged as a direct cost; selected research consulting because it represented over 95 percent of total purchased personal service cost recorded in the period ending December 31, 1998.
- Calculated monthly cash draws and compared them to the expenses recorded in Ohio's accounting system.

Objective 3

Our third objective was to determine if Ohio was achieving the objectives of the cooperative agreement. To accomplish this objective, we completed the following steps:

- Reviewed the cooperative agreement statement of work.
- Reviewed criteria that described the appropriate use of funds specifically for Superfund activities.
- Interviewed Region 5 and Ohio officials.
- Reviewed Ohio's financial and progress reports.

Control Risks and Criteria

In planning and performing our audit, we considered relevant aspects of the internal control structure in order to determine our auditing procedures. The significant controls we reviewed included financial management, accounting, and contract management. For these internal controls, we obtained an understanding of the relevant policies and procedures and whether they had been put into operation. Nothing else came to our attention in connection with our review which caused us to believe that Ohio was not in compliance with any of the terms and conditions of the cooperative agreement, laws, and regulations for those transactions not tested.

We used professional judgement to select transactions for review because internal controls were sufficient to ensure costs claimed were allowable and allocable. Because we used judgement to select tested transactions, we cannot project our results to the total universe of transactions.

For all items tested, we examined the source documents and performed other audit procedures we considered necessary to gain an understanding of Ohio's financial management, accounting, and contract administration controls. As criteria, we used 40 CFR, Parts 31 and 35, and Office of Management and Budget Circulars A-87 and A-102. Our review did not disclose any weaknesses in Ohio's financial management, accounting, or contract administration systems other than those discussed in our report.

Background

The Comprehensive Environmental Response, Compensation, and Liability Act, as amended, authorized EPA to delegate remedial response activities at hazardous waste sites to individual States. Delegated activities include preliminary assessments, site inspections, remedial investigations, feasibility studies, remedial designs, and remedial actions. When a State elects to manage the remedial response at a site, it enters into a cooperative agreement with EPA.

Consolidated or block funding of cooperative agreements offers ways for States and Tribes to realize greater flexibility in their use of cooperative agreement resources. These benefits include:

- Allowing States and Tribes to direct cooperative agreement funds between sites and activities to the extent allowed by the Advice of Allowance.
- Reducing specific administrative budget and reporting requirements, where appropriate, which can produce resource savings for both levels of government.

On September 30, 1997, EPA Region 5 awarded Ohio a consolidated cooperative agreement for Superfund activities. The original agreement has been amended three times to increase the total project cost to \$5,721,479, through June 30, 2001. The approved project costs include Federal assistance of \$5,528,747, and State matching costs of \$192,732. The State must provide a cost sharing match of 10 percent on the cost of all core activities. The following table details the Federal assistance awarded for the different activities included under the consolidated agreement.

Award/Amendment Date:	09/30/97	09/30/98	03/12/99	09/30/99	Total to Date
Budget Period:	10/01/97 to 06/30/99	10/01/97 to 06/30/00	10/01/97 to 06/30/00	10/01/97 to 06/30/01	
Core*	\$574,947	\$162,218	\$269,894	\$300,000	\$1,307,059
Enforcement	\$255,712	\$0	\$93,015	\$50,000	\$398,727
MAG/Support	\$257,102	\$0	\$94,059	\$83,763	\$434,924
Voluntary Action Program- Core*	\$0	\$227,500	\$0	\$200,034	\$427,534
Voluntary Action Program-Site Specific	\$0	\$153,665	\$0	\$118,585	\$272,250
Prelim. Assessment/Site Investigation	\$0	\$1,375,983	\$0	\$525,000	\$1,900,983
PASI-Brownfields	\$0	\$787,270	\$0	\$0	\$787,270
Total	\$1,087,761	\$2,706,636	\$456,968	\$1,277,382	\$5,528,747

*Federal assistance is 90% of approved budget; 10% State cost sharing required.
(State matching formula: $\$1,307,059 + \$427,534 \div 90\% = \$1,927,326 \times 10\% = \$192,732$)

State Response to the Draft Report



State of Ohio Environmental Protection Agency

STREET ADDRESS:

MAILING ADDRESS:

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P. O. Box 1049
Columbus, OH 43216-1049

August 30, 2000

Michael A. Rickey
Northern Audit Division
United States Environmental Protection Agency
Northern Division
77 West Jackson Blvd
Chicago, IL 60604-3590

RE: Draft Audit Report on Superfund Consolidated Agreement V985687-01

Dear Mr. Rickey:

I am in receipt of your letter and draft audit findings dated 2 August 2000. Thank you for providing me an opportunity to review and comment on the draft Audit Report. I have had my staff review the findings and Ohio's comments are attached. I have directed my staff to make every effort to ensure that the findings are understood and addressed in a timely fashion.

Sincerely,

Christopher Jones
Director

cc: Cindy Hafner, OEPA
Lora Fay, OEPA
Howard Levin, EPA
William E. Muno, EPA
Lois Betka, EPA

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Note: The original was signed by Christopher Jones.

Ohio's Comments to the Draft Audit Report on Superfund Consolidated Agreement
V985687-01

Finding No. 1: *Financial reporting Needs Improvement*

Ohio did not submit accurate or timely Financial Status Reports (financial report). This condition occurred because (1) Ohio believed that it was supposed to use a formula rather than report actual expenses, and (2) Ohio forgot to submit its reports for the period ending September 30, 1999. As a result, Region 5 was neither aware of the financial status of the program nor that Federal and State expenses were misstated.

Recommendation

We recommend that the Region Administrator clarify the reporting requirements for EPA financial assistance agreements to ensure that Ohio submits accurate and timely reports.

Ohio EPA Comments

Ohio acknowledges the failure to submit a report for the period ending September 30, 1999 within 90 days. Based on the September 30, 1998 amendment to the grant agreement it is Ohio's understanding that financial reports are to be submitted annually, by December 30th, for the period ending September 30th of each year. Ohio will submit the reports on time.

With respect to Ohio's reporting of expenditures, Ohio applied a formula (sharing ratio) to the total amount of eligible state and federal expenditures made during the grant period. Ohio split the total expenditure amount into a state and federal share based on the percentage of state match required. For example, if the required state match was 10% and Ohio had \$100 in eligible expenses, \$10 was reported as state match and \$90 was reported as federal.

Ohio calculates the state and federal amounts in this way since funding from many USEPA grants does not become available until several months into the grant period. Ohio is not permitted to run negative balances in our federal funds while awaiting grant awards. During the early months of many grant periods Ohio spends state money to keep the grant programs operating while waiting for the federal award. The amount of state money spent during this time often exceeds the required match. The difference between the required match and the amount actually spent is "borrowed" from other Ohio EPA non-grant programs. Ohio needs to recover this additional amount from USEPA so that other program areas are not adversely effected. Reporting the grant related expenditures based on sharing ratio allows Ohio to recover this funding and continue the practice of advancing state dollars to support federal grant programs while waiting for the award.

The Superfund Consolidated Cooperative Agreement is somewhat unique in that funding is generally available from the USEPA at the beginning of each award period. Therefore,

for this grant, Ohio can report actual expenditures without forfeiting state dollars. Ohio will work with the Region Administrator to determine how Superfund expenditures should be reported in the future.

Finding No. 2: Cost Sharing Needs to Be More Timely

Ohio did not meet its 10 percent cost sharing requirement for core activities in fiscal 1998 and 1999. This condition occurred because Ohio: (1) did not have sufficient procedures to assure that it met its cost sharing obligation, and (2) misunderstood the cost sharing requirements. As of September 30, 1999, Ohio had under-matched core activity expenses by more than \$76,000.

Recommendations

We recommend that the Regional Administrator ensures that Ohio reconciles and confirms its cost sharing requirements at the end of each annual budget period.

Ohio EPA's Comments

As of this response, Ohio has spent additional match to alleviate the \$76,285 shortfall and to keep us current with the match requirements. Ohio will reconcile our cash draw downs on a quarterly basis to actual expenses and verify that the state match requirement is being met. Ohio will work with the Region Administrator to determine if the annual reconciliation should occur at the end of the state or the federal fiscal year and proceed accordingly.

Finding No. 3: Controls for Cash Draws Need Improvement

Ohio's Automated Clearing House (ACH) draws exceeded the Federal share of expenses under the cooperative agreement. This condition occurred because Ohio did not have an effective method to determine draws based on immediate needs. As a result, Ohio frequently carried excess cash balances at the end of the month. On a few occasions, Ohio did not request enough funds to cover expenses, resulting in a negative cash balance at the end of the month.

Recommendation

We recommend that the Regional Administrator require Ohio develop an effective method for determining its cash needs.

Ohio EPA's Comments

Ohio respectfully notes that many ACH requests for cash are not processed within 48 hours. A sample of 41 ACH draw downs during the audit period found that the average number of days from the draw down until the cash was received was six (6) days. When

delays occurred in processing ACH requests Ohio must adjust the timing of its draw downs to ensure that sufficient cash will be on hand to meet payroll and other obligations. This may lead to temporary increases in our cash balance. Notwithstanding this, Ohio will work to further improve its ACH draw down procedures by developing and maintaining additional backup documentation of expenses used to prepare ACH draw downs.

Finding No. 4: Reporting of Program Accomplishments Needs Improvement

Ohio did not always identify the site specific activity being performed in its fiscal 1999 progress reports. This condition occurred because Ohio employees did not consistently describe the site specific work performed on their electronic time cards. The time cards were the source documents used to describe all tasks performed under the cooperative agreement. As a result, Region 5 may not be able to recover more than \$45,000 of payroll costs from responsible parties because the specific tasks were not always identified.

Recommendation

We recommend that the Regional Administrator require Ohio to ensure that its employees provide the description of the work required on their time cards to support cost recovery efforts.

Ohio EPA's Comments

Ohio has conducted an internal audit of our Time Accounting System (TAS) in an effort to determine the reason that site specific activities are not always reported. We have concluded that, in most cases, the activities are not attributed to a specific site because the site identification number has not yet been generated and entered into the electronic time card system. To address this problem, Ohio has taken several steps.

First, we have instituted a new mechanism for getting new sites entered into the TAS more efficiently. This will reduce or eliminate situations where staff try to record time to a site that is not in the system. Second, in the rare instance where an individual needs to charge time to a site for which there is no code in the TAS, staff has been directed to complete a handwritten time sheet with the appropriate site ID number and task description and submit it to fiscal. This will allow site specific time, including task descriptions, to be manually entered in the appropriate database. Third, Ohio has provided staff with quick reference sheet to make it easier to determine the correct manner in which to code time. In conjunction with this, we have proposed to conduct time accounting training for all staff to ensure they are properly informed. This direct approach will allow staff to ask questions and Fiscal to address problems more efficiently. Finally, supervisors and managers are directed to review time cards for these types of coding problems prior to approval. Ohio believe these measures will ensure that the description of time will be appropriately recorded to support cost recovery efforts. Ohio will work with the Regional Administrator to ensure that site specific time is recorded with appropriate activity descriptions, and welcomes any recommendations the Regional Administrator may have.

Region 5 Response to the Draft Report

**UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
REGION 5**

DATE: 5 SEP 2000

SUBJECT: Draft Audit Report on Assistance Agreement No. V985687-01
Superfund Consolidated Cooperative Agreement
Awarded to Ohio Environmental Protection Agency

FROM: Francis X. Lyons
Regional Administrator

TO: Robert Bronstrup
Divisional Inspector General for Audit
Office of Inspector General, Northern Division

Thank you for the opportunity to comment on the Office of Inspector General (OIG), Northern Division's Draft Audit Report on Ohio EPA's Superfund Consolidated Cooperative Agreement No. V985697-01. We concur with the recommendations in the report. The following are our specific comments on each recommendation, including our plans for corrective action with milestone dates. As you will be able to see in the following comments, we will be taking additional corrective action, beyond the OIG's recommendations, with regard to draw downs.

Finding No. 1: Financial Reporting Needs Improvement

We agree that Ohio EPA's Division of Emergency and Remedial Response (DERR) must improve the accuracy of its Financial Status Reports (FSRs) and submit them on a timely basis. We will send the attached letter by September 8, 2000, to Ohio EPA/DERR to clarify that the due date for FSRs is December 31; to reiterate that the reports are to be prepared based on actual expenses; and to remind the state that reports should be submitted to the Grant Specialist listed on the Cooperative Agreement.

Finding No. 2: Cost Sharing Needs To Be More Timely

We agree with the OIG's recommendation to ensure Ohio reconciles and confirms its cost sharing requirements at the end of each annual budget period. The attached letter to Ohio EPA/DERR, specifies the annual reconciliation should be done at the time that December 31 FSRs are prepared and Ohio should confirm it has met the cost sharing requirements for Core Program and VAP/Core funds at that time. We will update the CA special conditions on reporting to ensure that this requirement is clarified in the next Assistance Amendment that will

Note: The original was signed by Francis X. Lyons.

be awarded by September 30, 2000.

Finding No. 3: Controls for Cash Draws Need Improvement

We agree that Ohio EPA/DERR needs a more effective method for determining immediate cash needs. The attached letter asks the state to put in writing its procedure for determining the amounts it will draw down by activity and by site under the consolidated CA. U.S. EPA will review the state's proposed procedure and negotiate any necessary changes.

In addition to addressing the problem of excess cash balances identified in the audit, we are requiring the state to comply with condition No. 4 on page 5 of the original September 30, 1997 Assistance Agreement.

Under the block funding pilots previously used, the Region obligated various combinations of Core Program, Pre-Remedial, Remedial Planning State-lead, and Support Agency funds as lump sums using generic site and activity accounting codes. The states, however, were supposed to draw down site-specifically. This was not done and will require a significant effort by both the state of Ohio and the Regional Comptroller's Branch to redistribute the expenditures site-specifically. We will work with the state of Ohio to ensure that site-specific information by draw down is made available to our Comptrollers Office which will then redistribute material expenditures site-specifically.

Finding No. 4: Reporting of Program Accomplishments Needs Improvement

We agree that Ohio employees should consistently enter information into their automated time accounting and reporting system to indicate what work is performed on a site whenever hours are charged to the site. When we agreed to allow the state to submit these time accounting system reports to meet the semiannual CA progress reporting requirement, it was with the understanding that all staff would report the work that they performed. We have reiterated this in the attached letter and required Ohio to provide instructions to all site coordinators on reporting tasks performed.

Finally, the Region has implemented a Post Award Management Policy which includes Region 5's commitment to provide training to our state environmental agencies. This training will clarify the state agencies' responsibilities under 40 CFR Part 31 and OMB Circulars A-110 and A-87. We are currently in the process of negotiating a date with Ohio EPA to provide such training in early FY 2001.

If you have any questions, please contact Howard Levin, the Regional Audit Coordinator, at 67522.

Attachment

cc: Michael Rickey, Audit Manager, OIGND



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

AUG 30 2000

REPLY TO THE ATTENTION OF
S-6J

Cindy Hafner, Chief
Division of Emergency and Remedial Response
Ohio Environmental Protection Agency
Lazarus Government Center
PO Box 1049
Columbus OH 43216-1049

Dear Ms. Hafner:

This is to follow up on the Draft Audit Report dated August 2, 2000, addressing the Superfund Consolidated Cooperative Agreement. I have concurred with the recommendations in the report and will expect my staff to work with your agency to accomplish the improvements recommended by the Office of Inspector General. I recognize that it's not easy to implement a pilot project like the Consolidated Cooperative Agreement with such a large number of NPL and SAAM sites at which the state provides support services and I was glad to see that no costs were questioned or disallowed. In order to clear up misunderstandings regarding the requirements for reporting, cost-sharing, and drawdowns, I want to clarify the following:

1) The enclosed Financial Status Report (Short Form) Standard Form 269A, must be submitted annually by December 31st (91 days after the end of the Federal Fiscal Year). A separate report must be submitted for each activity funded in the Consolidated CA and for each site funded for enforcement and remedial support agency services. We must have separate reports for the Core Program, traditional PA/SI, Brownfields, and Voluntary Action Program/Core. The reports should be prepared on a cash basis, with outlays being the sum of actual cash disbursements. State match for Core and Core/VAP should be actual cash outlays (see item 10a. Instructions on the reverse of the form).

Please submit the FSRs to the Grant Specialist listed on your Consolidated CA award document. Our next amendment of the Consolidated CA will update the reporting terms and conditions to conform to this clarification on FSRs.

2. In conjunction with completing the annual FSR for the Core Program and Core/VAP, please reconcile the state match contribution and confirm that the required 10% match was met. We will update the Consolidated CA special condition to reflect that this reconciliation/ confirmation will coincide with filing the annual FSR.

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3. In view of the finding that your cash balances exceeded immediate cash needs in certain months during the period audited, please prepare within 90 days, a written procedure for determining the amounts Ohio EPA will draw down by activity and site under the consolidated CA. We will review the procedure, provide comments and negotiate any necessary changes with your staff.

I am aware of our staffs' discussions of the requirements regarding lump sum obligations and site-specific draw downs in the original September 30, 1997 Assistance Agreement special condition No. 4, page 5. We decided not to request a deviation from the regulation at 40 CFR §35.6280(b) that requires draw downs by site, activity and operable unit. I expect Ohio EPA's time accounting system to accurately compile the staff hours spent by site and to gather travel, per diem, supplies and other approved costs site-specifically. Our Superfund Accounting Section and Assistance Agreements staff will send you a joint letter outlining how we propose to reconcile the past costs under the consolidated CA since September 1997, that should have been outlaid site-specifically in keeping with special condition No. 4. We will jointly agree upon the procedures and schedule for accomplishing this reconciliation.

4. We approved Ohio's submission of the Time Accounting System reports to meet our streamlined CA progress report requirements (approved as a deviation by the Grants Administration Division) with the understanding that Ohio staff would consistently report the work that they performed for time charged to the site. Please reiterate to all staff who charge time site-specifically to the Consolidated CA that they must report work performed.

I appreciate Ohio's efforts to implement the Consolidated CA concept and look forward to working with you to make these recommended improvements. If you wish to discuss any of these matters, please do not hesitate to call me at 312/353-9773.

Sincerely,

William E. Muno Director
Superfund Division

Enclosure

Note: The original was signed by William E. Muno.

Distribution

Region 5

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Audit Followup Coordinator
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Director
Chief, Division of Emergency and Remedial Response

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