



Memorandum

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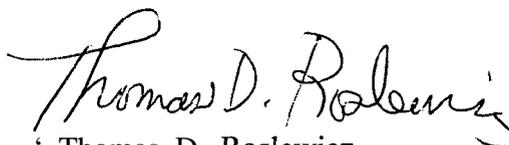
From Deputy Inspector General
for Audit Services

Subject Superfund Financial Activities at the National Institute of Environmental Health
Sciences for Fiscal Year 1995 (CIN: A-04-96-04576)

To Leamon M. Lee, Ph.D.
Associate Director for Administration
National Institutes of Health

The attached final report provides you with the results of our audit of the National Institute of Environmental Health Sciences' **Superfund** financial activities for Fiscal Year 1995. The report contains recommendations to improve accountability over billings to the Superfund. The National Institutes of Health stated that it concurs with the recommendations, and indicated that corrective action has been taken.

Should you wish to discuss the issues raised by our review, please contact Joseph J. Green, Assistant Inspector General for Public Health Service Audits, at (301) 443-3582. Please refer to the CIN A-04-96-04576 in all correspondence relating to this report.


Thomas D. Roslewicz

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**SUPERFUND FINANCIAL ACTIVITIES AT
THE NATIONAL INSTITUTE OF
ENVIRONMENTAL HEALTH SCIENCES
FOR FISCAL YEAR 1995**



JUNE GIBBS BROWN
Inspector General

FEBRUARY 1997
A-04-96-04576

EXECUTIVE SUMMARY

This report provides the results of our audit of the National Institute of Environmental Health Sciences (NIEHS) Superfund financial activities for Fiscal Year (FY) 1995. We conducted the audit to comply with provisions of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (Act). The Act requires the Inspector General of a Federal organization with Superfund responsibilities to annually audit all uses of the Superfund.

The NIEHS receives funds through an interagency agreement (IAG) with the Environmental Protection Agency (EPA) to carry out health-related and other functions mandated by Superfund legislation. During the period October 1, 1994, through September 30, 1995, NIEHS' obligations of Superfund resources totaled about \$58.7 million and disbursements totaled about \$56.2 million of funds obligated during and prior to that year.

Our audit showed that NIEHS generally administered the fund according to the Superfund legislation. However, the National Institutes of Health (NIH), which performs some administrative functions for NIEHS, had overbilled EPA by \$21,220 during our audit period. This occurred due to a clerical error.

We are recommending that NIH:

- refund the \$21,220 to EPA; and
- increase supervision of the billing function to ensure that future billings are accurate and that billing errors do not go undetected.

In its written response to our report, NIH concurred with our recommendations and indicated that corrective action has been taken.

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ABBREVIATIONS USED

Act	Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended
C.F.R.	Code of Federal Regulations
Comp. Gen.	Comptroller General Decision
EPA	Environmental Protection Agency
FY	Fiscal Year
HHS	Department of Health and Human Services
IAG	Interagency Agreement
NIEHS	National Institute of Environmental Health Sciences
NIH	National Institutes of Health
OIG	Office of Inspector General
SARA	Superfund Amendments and Reauthorization Act of 1986

BACKGROUND

The NIEHS, located at Research Triangle Park, North Carolina, is a component of NIH. The NIH provides NIEHS with direction, billing services, and other administrative and professional services. The NIH is an agency of the Department of Health and Human Services (HHS).

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

The NIEHS receives funding from EPA to carry out functions mandated by the Act. In carrying out its Superfund responsibilities, NIEHS uses about 5 percent of these funds for administrative costs and awards the remaining 95 percent to other organizations. These organizations:

- train persons who are engaged in hazardous waste removal, containment, transportation, or emergency response activities; and
- study the effects of exposure to specific chemicals.

Funds are obligated by NIEHS when it agrees to fund activities related to the Act. Funds are disbursed by NIEHS after the activities have been completed. During the period October 1, 1994, through September 30, 1995, NIEHS obligated about \$58.7 million and disbursed about \$56.2 million in Superfund resources. Of the \$56.2 million of disbursements, \$5.2 million was related to FY 1995 funds. The remaining \$51 million was related to prior periods.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to determine:

- the allowability, allocability, and reasonableness of costs claimed under NIEHS' agreement with EPA;
- whether NIEHS charged overhead in compliance with Section 601 of the Economy Act of 1932 and Comptroller General Decisions (Comp. Gen.) 56 Comp. Gen. 275 (1977) and 57 Comp. Gen. 674 (1978);
- whether NIEHS was able to accurately record costs on a site-specific basis; and
- whether NIEHS submitted the minority contractor's utilization report timely and whether the report was supported by relevant documentation.

The audit was conducted to comply with Section 111(k) of the Act, as amended by SARA. We performed the audit in accordance with IAG DW75937470-01-0 between EPA's Office of Inspector General (OIG) and HHS' OIG.

The NIH provided a financial transactions listing of Superfund obligations and disbursements recorded during the period October 1, 1994, through September 30, 1995. This listing included Superfund grant obligations of \$55,875,504 and nongrant obligations of \$2,795,825. The \$55,875,504 of grant obligations consisted of \$55,903,004 for FY 1995 funds and a deobligation of \$27,500 of prior year funds. In addition, the listing included grant disbursements of \$52,362,554 and nongrant disbursements of \$3,867,101.

The NIEHS entered agreements with universities, unions, and other nonprofit organizations to carry out its responsibilities under the Act. We verified the \$55,903,004 of obligations to the grant award documents for the 41 research, training, and scientific evaluation grants. The scope of our audit did not include auditing disbursements by the grantees. These grants are subject to independent audits under 45 Code of Federal Regulations (C.F.R.) 74.26.

To determine which grantees had submitted current audits in accordance with 45 C.F.R. 74.26, we identified all grantees from inception of the Superfund program at NIEHS and listed the audit information that we had obtained in prior years. We contacted HHS OIG National External Audit Review Center and requested current audit information on all grantees. We analyzed this data and made a determination as to whether the grantees had submitted current audits. We also analyzed report data to determine if the reports contained any significant findings related to Superfund.

We reviewed a stratified random sample of 100 nongrant transactions. This sample consisted of 30 personnel and 70 "other" disbursement transactions. The 30 personnel disbursement transactions that we reviewed totaled \$11,806 from the universe of 868 personnel transactions totaling \$586,534. The 70 "other" disbursement transactions that we reviewed totaled \$41,992 from the universe of 1,092 "other" transactions totaling \$3,280,567.

We also reviewed a judgmental sample of 16 unliquidated nongrant obligations. These 16 transactions totaled \$1,774,875 from a universe of \$2,566,674 in unliquidated obligations. The associated disbursements for these transactions will be subject to review in future Superfund audits.

We interviewed NIEHS officials to determine if they had a system for recording costs for specific sites.

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

- Section 601 of the Economy Act of 1932 and amendments thereto;
- 56 Comp. Gen. 275 (1977) and 57 Comp. Gen. 674 (1978);
- Title II, Section 311 of the Act (functional requirements of NIEHS); and
- Title I, Section 105(f) of the Act (minority contractors utilization).

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

- Funding Authority
- Financial Reporting
- Payroll and Timekeeping
- Travel
- Other Contractual Services
- Grants, Subsidies, and Contributions
- Equipment

We followed up on the corrective actions taken in response to the FY 1994 report on Superfund financial activities (Common Identification Number A-04-95-04551).

We conducted our audit in accordance with generally accepted government auditing standards applicable to financial-related audits. Our review was performed at NIEHS in Research Triangle Park, North Carolina, and at our Raleigh, North Carolina, Field Office during the period January-July 1996.

The NIH provided a written response to our report dated December 18, 1996. The NIH's comments are summarized after the finding. The entire text of the comments is included as an Appendix to the report.

RESULTS OF AUDIT

Our audit showed that NIEHS:

- generally incurred Superfund obligations and made disbursements for allowable, allocable, and reasonable costs; however, NIH had overbilled EPA by \$21,220 for grants;
- was in compliance with the Economy Act with regard to charging overhead;
- did not have a need to record costs on a site-specific basis; and

- submitted, in a timely manner, a minority contractors utilization report that was supported by relevant data.

Following are the results of our audit-by-audit objective along with a section on internal controls as required by generally accepted government auditing standards.

ALLOWABILITY OF COSTS

The Superfund transactions included in our review for the period October 1, 1994, through September 30, 1995 relate to FY 1991 and FY 1993 through FY 1995 funds. Although FY 1990 and FY 1992 are still open, no transactions were recorded for these years during FY 1995. The financial transactions were generally properly and accurately recorded. Supporting documentation showed that obligations were incurred and disbursements were made for Superfund activities. We found no indication of payments or uses of the Superfund monies other than those shown in NIEHS' records. However, we believe that NIH needs to make improvements in the following area.

Extramural Billings

Extramural billings are billings for funds expended for grants awarded to other organizations by NIEHS. According to NIEHS' procedures, extramural billings are based on actual disbursements. According to the IAG between NIEHS and EPA, billings should be made on a quarterly basis.

We compared cumulative disbursements recorded in the accounting records to costs billed as of September 30, 1995. Disbursements recorded in the accounting records for Common Accounting Numbers 8420860 and 8420861 for FY 1991 funds were \$40,400,006 and cumulative billings totaled \$40,421,226. This comparison showed that NIH had billed EPA for \$21,220 which had not been disbursed.

According to NIH, this occurred because, at one point, disbursements recorded in the accounting records were \$21,220 higher than they were at September 30, 1995. When these disbursements were later reversed, no correction to the billing was made. The billing error went undetected because of a clerical error in the Lotus spreadsheet for tracking billings. The NIH stated that this type of error could probably be prevented by increased supervision of the billing function.

Recommendations

We recommend that NIH:

- refund the \$21,220 to EPA; and
- increase supervision of the billing function to ensure that future billings are accurate and that billing errors do not go undetected.

NIH Comments

The NIH concurred with our recommendations, returned the \$21,220 to the Treasury, and agreed to reemphasize the importance of accuracy in billings to the staff responsible.

OVERHEAD

Our review showed that NIEHS did not charge overhead in FY 1995. According to NIH and NIEHS, the overhead amount that would be recovered would be less than the cost of the additional time to account for overhead and the cost of modifications to their accounting system.

We concur with NIH's and NIEHS' assessment of overhead and believe that their decision is in accordance with the Economy Act of 1932, as amended.

COSTS RECORDED ON A SITE-SPECIFIC BASIS

The NIEHS does not record costs for specific sites because it is only involved with research and worker training. Costs for these activities cannot be identified to a specific site. Therefore, it was not necessary for NIEHS to have been able to record costs for specific sites.

MINORITY CONTRACTORS UTILIZATION REPORT

The minority contractors utilization report is required annually by EPA under the IAG. The report should list contracts with minority businesses, and was due on December 15, after the end of the FY.

The NIEHS compiled the information and submitted the minority contractors utilization report to EPA in a timely manner. We reviewed the report and found it to be accurate and supported by relevant documentation.

INTERNAL CONTROLS

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

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

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

Although our audit did not disclose material irregularities, we noted a matter involving the internal control structure and its operations that we consider a reportable condition based on reporting requirements of generally accepted government auditing standards. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial reports. This matter is discussed under the heading **Extramural Billings** on page 4.

APPENDIX



National Institutes of Health
Bethesda, Maryland 20892

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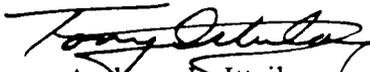
TO: Thomas D. Roslewicz
Deputy Inspector General for Audit Services

FROM: Deputy Director for Management, NIH

SUBJECT: Office of Inspector General (OIG) Draft Report *Superfund Financial Activities at NIEHS for Fiscal Year 1995 (CIN: A-04-96-04576)*

Attached are the NIH comments on the subject report. We concur with the OIG recommendations and have taken steps to implement them. We believe the concerns raised in the audit have been adequately addressed.

If you have any questions regarding this matter, please contact Mr. Bill Gillen or Mr. Paul Coppola of my staff on (301) 496-2461.


Anthony L. Itteilag

Attachment

cc:
Dr. Lee, OA
Ms. Little, OFM
Mr. Leasure, NIEHS

National Institutes of Health (NIH) Comments on the Office of Inspector General (OIG)
Draft Report *Superfund Financial Activities at the National Institute of Environmental
Health Sciences for Fiscal Year 1995*, A-04-96-04576

General Comments

This OIG audit was performed in accordance with provisions of the Superfund Amendments and Reauthorization Act of 1986 (Act). NIEHS receives Superfund monies through interagency agreements with the Environmental Protection Agency (EPA) to perform functions mandated by the Act. The objectives of the audit were to determine whether these functions were properly administered and to follow-up on corrective actions taken in response to the Fiscal Year 1994 report on NIEHS' Superfund financial activities.

The audit showed that NIEHS generally incurred Superfund obligations and made disbursements for allowable, allocable, and reasonable costs; was in compliance with the Economy Act with regard to charging overhead; did not have a need to record costs on a site-specific basis; and submitted, in a timely manner, a minority contractors utilization report that was supported by relevant data. The report identified a \$21,220 overbill to EPA.

OIG Recommendation

We recommend that NIH:

1. Refund the \$21,220 to EPA.

NIH Comment

We concur. NIH staff from the Office of Financial Management (OFM) have reviewed this report and acknowledge that the NIH failed to return to EPA a credit of \$21,220.00 that NIH received during FY 1995. This occurred primarily because staff did not review the FY 1991 transactions because those funds previously had been completely disbursed and billed to the EPA. We do not feel that any special corrective actions are now necessary because the NIH returned the \$21,200.00 to the Treasury at the end of FY 1996. According to appropriation law, funds are only available for expenditures for the current year and five additional years. Therefore, if we had returned this credit to EPA during FY 1995, their staff would also have subsequently had to cancel these funds and return the money to the Treasury. There is no longer any action to take on the error, as the funds have been returned to the Treasury.

OIG Recommendation

2. Increase supervision of the billing function to ensure that future billings are accurate and that billing errors do not go undetected.

NIH Comment

We agree to reemphasize to staff the importance of accuracy in billings, and OFM senior staff will continue to provide support to ensure that billings are completed with the highest degree of accuracy and on time. We believe that these steps implement this recommendation and do not think that the billing error discussed in the report [0.04% of the \$56.2 million of disbursed funds] indicates the need for additional layers of supervision to ensure the accuracy of future billings.