



Memorandum

Date JUL 1 1992
From Richard P. Kusserow
Inspector General

Subject Superfund Financial Activities at the National Institute of
Environmental Health Sciences for Fiscal Year 1990
(A-04-91-04026)

To James O. Mason, M.D., Dr. P.H.
Assistant Secretary for Health

Attached is the final audit report on the results of our audit of the National Institute of Environmental Health Sciences (NIEHS) Superfund financial activities for Fiscal Year (FY) 1990. Our audit was conducted pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA), as amended. The CERCLA requires the Inspector General of each Federal organization with Superfund responsibilities to conduct audits of all payments, obligations, reimbursements, or other uses of the Superfund, to assure that the fund is being properly administered and that claims are being appropriately and expeditiously considered. Through interagency agreements (IAG) with the Environmental Protection Agency (EPA), NIEHS obligated \$36.3 million and disbursed \$24.1 million in Superfund resources during FY 1990.

Our audit disclosed that, with the exception of minor irregularities due to clerical errors, NIEHS generally administered the fund in accordance with Superfund legislation. However, we noted internal control weaknesses involving the: (1) timeliness and accuracy of the IAG between NIEHS and EPA; (2) adequacy of documentation maintained for billings; and (3) compliance with time and attendance procedures.

In the written response, Public Health Service (PHS) concurred with the report recommendations and have indicated that corrective action will be taken. A copy of PHS' response is included as Appendix B.

We would appreciate being advised within 60 days on the status of corrective actions taken or planned on each recommendation. Should you wish to discuss the issues raised by **our** review and

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recommendations, please call me or your staff may contact Daniel W. Blades, Assistant Inspector General for Public Health Service Audits at **(301)443-3583**.

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 1990



Richard P. Kusserow
INSPECTOR GENERAL,

A-04-91 -04026

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) 1990. Our audit was conducted to comply with provisions of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA), as amended. The CERCLA requires the Inspector General of a Federal organization, with Superfund responsibilities, to conduct an audit of all payments, obligations, reimbursements, or other uses of the Superfund, to assure that the fund is being properly administered and that claims are being appropriately and expeditiously considered.

The NIEHS is a component of the National Institutes of Health (NIH), an agency of the Public Health Service (PHS) within the Department of Health and Human Services (HHS). The NIEHS receives overall direction from NIH. The NIH also provides billing services, and certain other administrative and professional services to NIEHS. The NIEHS is located at Research Triangle Park, North Carolina.

The NIEHS receives funds through an interagency agreement (IAG) with the Environmental Protection Agency (EPA) to carry out health related and other functions mandated to NIEHS by Superfund legislation. During the period October 1, 1989 through September 30, 1990, NIEHS' obligations of Superfund resources totaled about \$36.3 million and disbursements totaled about \$24.1 million.

Our audit disclosed that NIEHS generally administered the fund in accordance with Superfund legislation. Several corrective measures had been taken by NIEHS in response to recommendations contained in our prior report "Superfund Financial Activities of the National Institute of Environmental Health Sciences for Fiscal Years 1987, 1988 and 1989" (A-04-90-04003 issued on February 26, 1991). Our recent work indicates; however, that there are additional areas requiring management attention and corrective action to ensure a more efficient and effective administration of the program.

Due to clerical errors, Superfund costs recorded in the accounting records were overstated by \$24,749. Our review also disclosed internal control weaknesses in three areas:

Execution of Interagency Agreements The IAG between NIEHS and EPA for FY 1990 was executed 2 days prior to the end of FY 1990 and funds provided were \$645,200 less than NIEHS had anticipated. Consequently, NIEHS was forced to reduce the budgets of Superfund grants that had been and were about to be awarded. We believe that delays in establishing an IAG may put HHS resources at an unnecessarily high risk for not being fully recoverable from EPA.

Reimbursement Billings The NIH's requests for reimbursement from EPA for FY 1987 Superfund activities exceeded actual disbursements by \$17,191. In addition, the NIH was not able to provide documentation which supported the amounts billed for FY 1988 through 1990. We believe that these conditions occurred because the accounting system does not enable the user to readily determine the financial status of Superfund activities.

Time and Attendance Procedures The NIEHS timekeepers were not always kept informed of employee time and attendance information, and timekeeping procedures were not always followed.

In our opinion, the internal control weaknesses are not material under the Federal Managers' Financial Integrity Act. However, we believe the deficiencies are significant matters that are reportable conditions meeting the reporting criteria of the Government Auditing Standards. We are recommending that NIH: (1) take a more aggressive role in ensuring the timely and accurate establishment of the IAG; (2) revise current billings for the amounts over/underbilled and, in the future, maintain adequate documentation for the billings; and (3) improve internal controls over timekeeping by ensuring that established procedures are followed and by preparing written policies that require that employees complete their time reports.

In their written response PHS concurred with the recommendations made in the audit report and have indicated **that** corrective action will be taken. The PHS comments are summarized after each finding and the entire text of the comments is included as Appendix B to the report.

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ABBREVIATIONS USED

CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act of 1980
CPA	Certified Public Accountant
EPA	Environmental Protection Agency
FY	Fiscal Year
HHS	Department of Health and Human Services
IAG	Interagency Agreement
IG	Inspector General
NIEHS	National Institute of Environmental Health Sciences
NIH	National Institutes of Health
OMB	Office of Management and Budget
PHS	Public Health Service
SARA	Superfund Amendments and Reauthorization Act of 1986

BACKGROUND

The NIEHS is a component of NIH. The NIEHS is located at Research Triangle Park, North Carolina. The NIH provides NIEHS with overall direction, billing services, and other administrative and professional services. The NIH is an agency of PHS within HHS.

The CERCLA, Public Law 96-510, mandated the establishment of the Hazardous Substance Response Trust Fund, which is commonly known as Superfund. The CERCLA was extended and amended by the Superfund Amendments and Reauthorization Act of 1986 (SARA). The Superfund, managed by EPA, is a trust fund used to respond to emergency environmental conditions that are hazardous to health, and to pay for the removal of toxic substances.

The NIEHS receives its annual funding from EPA to carry out the health related and other functions mandated to NIEHS by CERCLA. In carrying out its Superfund responsibilities, NIEHS awards over 95 percent of its funds to organizations for:

- (1) training persons who are engaged in hazardous waste removal containment or emergency response activities; and
- (2) studying the short-and long-term effects of exposure to specific chemicals.

During the period October 1, 1989 through September 30, 1990, NIEHS obligated \$36.3 million and disbursed about \$24.1 million in Superfund resources. Of the \$24.1 million disbursements, \$2.2 million were related to FY 1990 funds and \$21.9 million were related to prior periods. For FY 1990 funds, approximately \$33.3 million of the \$34 million of the unliquidated obligations are for grants. Most grant funds are not disbursed until years subsequent to the year in which they are obligated.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of the audit was to determine: whether documentation for NIEHS' FY 1990 Superfund financial transactions was sufficient; whether financial transactions were accurately recorded and reported; and whether the Superfund was otherwise administered pursuant to Superfund legislation. The audit was conducted to comply with section 111(k) of CERCLA, as amended by SARA, which requires the Inspector General of each agency with Superfund activity to conduct an audit of all payments, obligations, reimbursements, or other uses of the Superfund. Other requirements of CERCLA are to audit claims to determine that they are appropriately and expeditiously considered; audit a sample of agreements

with States; and examine remedial investigations and feasibility studies. prepared for remedial actions.

Our discussions with NIEHS and EPA officials confirmed that the requirements pertaining to claims and remedial investigations and feasibility studies are not applicable to NIEHS because they are EPA's responsibility. The NIEHS has entered into agreements with universities, unions, and other nonprofit organizations. Audits of a sample of these agreements are being conducted on a continuing basis, under our direction, with the Office of Inspector General (OIG) staff or by certified public accounting (CPA) firms. This review included an evaluation of the results of CPA audits completed through FY 1990. The audits covered funds totaling about \$6.3 million awarded in FYs 1988 and 1989 involving agreements with the International Chemical Workers Union, Akron, Ohio; the International Union of Operating Engineers, Washington, D.C.; the Oil, Chemical & Atomic Workers International Union, Lakewood, Colorado; the Laborers' AGC Education and Training Fund, Pomfret Center, Connecticut; and the University of Medicine and Dentistry of New Jersey, Piscataway, New Jersey.

A summary of the NIEHS Superfund financial transactions that we reviewed are shown in Appendix A. We prepared the summary from the transaction listing, provided by NIH, on Superfund obligations and disbursements recorded during the period October 1, 1989 through September 30, 1990. We tested the transaction listing to determine if it was representative of the accounting records. We also tested the transactions to determine whether supporting documentation was sufficient; whether the transactions were accurately recorded and reported; and whether the fund was otherwise administered in accordance with Superfund legislation.

We reviewed a random sample of 100 disbursement transactions and related obligations for non-personnel costs totaling \$6,732,495 from 579 disbursement transactions totaling \$23,878,794. Based on the internal control weaknesses identified in our prior audit (A-04-90-04003), we performed a 100 percent review of disbursements and the related obligations for personal services and fringe benefits totaling \$264,710. We selected a judgmental sample of 25 unliquidated obligations totaling \$11,976 for review. The associated disbursements for these transactions are subject to review in future Superfund audits.

We verified \$35,094,200 in obligation transactions to grant award documents for the 41 research and training grants awarded in FY 1990. Our review of non-personnel costs included conducting tests of grantee disbursements as reflected in the HHS Payment Management System for grants and

cooperative agreements and the NIH Central Accounting System to assure ourselves that disbursements charged to the Superfund were for Superfund activities.

As part of our audit, we evaluated NIEHS' system of internal controls relevant to the nature, timing, and extent of the auditing procedures necessary to accomplish the objective 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 control taken as a whole. For the purposes of this audit, we classified significant internal controls into eight categories:

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

Our evaluation of internal controls included all of the categories noted above except for Personal Compensation and Benefits.

In addition to general tests of compliance with laws and regulations such as those covering cost principles, we performed tests of NIEHS' compliance with provisions of the following laws that are enumerated in IAG between HHS and EPA: (1) section 601 of the Economy Act of 1932 and amendments thereto, (interagency agreements); (2) the Comptroller General Decisions, 56 Comp. Gen. 275 (1977) and 57 Comp. Gen. 674 (1978), (inclusion of departmental overhead in interagency agreements); (3) section 104(i) of the CERCLA, (Functional Requirements of NIEHS); and (4) section 105(f) of the CERCLA, (Minority Business Utilization).

We conducted our audit in accordance with Government Auditing Standards applicable to financial related audits. Our review was performed at NIEHS in Research Triangle Park, North Carolina, and NIH in Bethesda, Maryland, during the period December 1990 through April 1991. The audit was performed under EPA Interagency Agreement number DW75934999-01, between the EPA's OIG and HHS' OIG.

On January 6, 1992, we contacted NIEHS to determine the status of the IAG with EPA for Fys 1991 and 1992. The audit covered obligation and disbursement transactions recorded during the period October 1, 1989 through September 30, 1990.

FINANCIAL RECORDS

The financial transactions were properly and accurately recorded with the exception of \$24,749 which was incorrectly recorded due to clerical errors. Other than these costs, supporting documentation showed that obligations were incurred and disbursements were made for valid Superfund activities. We found no indication of payments or other uses of the Superfund, other than those shown in NIEHS' records as obligations and disbursements.

Six audits conducted under our direction by a CPA firm were completed through April 1991. The total costs audited were about \$6.3 million covering agreements NIEHS made with entities to conduct Superfund training activities. The audits disclosed no problems that would affect, in a material way, the financial records we reviewed. However, the audits did reveal some disallowances and other errors. The CPA's findings and recommendations have been discussed in reports issued under our direction to responsible officials at the six entities which are:

International Chemical Workers Union
(A-04-89-04106)
Audit Period - September 30, 1987 through September 15, 1988
Audited Costs - \$801,007

International Union of Operating Engineers
(A-04-90-04004)
Audit Period - September 30, 1987 through September 15, 1988
Audited Costs - \$1,118,657

Oil, Chemical and Atomic Workers International Union
(A-04-90-04017)
Audit Period - September 30, 1987 through September 15, 1988
Audited Costs - \$687,348

Laborers AGC Education and Training Fund
(A-04-90-04028)
Audit Period - September 16, 1988 through September 15, 1989
Audited Costs - \$2,159,497

International Union of Operating Engineers
(A-04-90-04029)
Audit Period - September 16, 1988 through September 15, 1989
Audited Costs - \$717,482

University of Medicine and Dentistry of New Jersey
(A-04-91-04000)
Audit Period - September 16, 1988 through September 15,
1989
Audited Costs - \$797,539

The NIEHS' Superfund transactions for the period October 1, 1989 through September 30, 1990 are summarized in Appendix A. These transactions relate to FY 1987 through FY 1990 funds. Appendix A shows obligation and disbursement amounts by category, and notes on the accounting records of NIEHS' Superfund transactions.

COMPLIANCE

Compliance with laws and regulations, contracts, grants, and interagency agreements applicable to NIEHS is the responsibility of NIEHS management. The results of our tests of financial transactions revealed that, with respect to the items tested, NIEHS complied, in all material respects, with the provisions referred to in paragraph 2 of page 3 of this report. With respect to items not tested, nothing came to our attention that caused us to believe that NIEHS had not complied, in all material respects, with those provisions.

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 certain matters involving the internal control structure and its operations that we consider reportable

conditions based on reporting requirements of the 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 judgement, 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.

FINDINGS AND CONCLUSIONS

The EPA and NIEHS use an annual IAG to document their funding and working relationship. For FY 1990, the IAG was not executed timely and contained errors when executed. Our review also disclosed that NIH's reimbursement billings to EPA for NIEHS's work were inaccurately prepared and NIEHS did not always adhere to established HHS policies for time and attendance procedures.

Execution of Interagency Agreements

The IAG between NIEHS and EPA for FY 1990 was executed 2 days prior to the end of FY 1990. The NIEHS operated under the continuing-concern concept on the assumption that an acceptable operating budget would be negotiated, and an IAG with EPA would be established for ongoing Superfund activities. Under the continuing-concern concept, NIEHS continued its Superfund operations, without interruption, and utilized HHS assets and resources to continue the programs until an IAG with EPA was formalized. We believe that this process may put HHS resources at an unnecessarily high risk for not being fully recoverable from EPA.

For FY 1990, NIEHS anticipated receiving **\$36,900,000** from EPA and had referenced this amount in a December 1989 letter requesting assistance from EPA in renewing the IAG. In a letter dated January 5, 1990, EPA concurred with NIEHS' request to renew the IAG and stated: **"This** letter serves to renew our IAG for FY 90 and is a formal supplement to our past agreement." Based on this document, obligational authority for \$36.9 million in excess of the NIEHS direct appropriation was requested from the Office of Management and Budget (OMB); and after OMB approval, allowance data was entered into NIH's funds control system for obligational transactions. The NIEHS believed that the January 1990 letter served to commit EPA funds in the amount of **\$36,900,000**.

The actual IAG was established in September 1990 for **\$36,254,800**, or \$645,200 less than anticipated. The NIEHS was notified of the reduction in funds in August 1990. The EPA

reduction was the net result of the FY 1990 congressionally directed section 517 reduction (1.55%) and the **Gramm-Rudman-Hollings** deficit reduction (1.3%) sequestration. The NIEHS was able to reduce the budgets of Superfund grant programs. Grants had already been awarded to several entities and other amounts had been negotiated; however, the grantees had to bear the burden of the reduction in funding.

Research and development grants were over obligated by \$8,000 as of September 30, 1990 due to the late reductions in the IAG amount. Steps had to be taken by NIEHS after the end of the fiscal year to deobligate these funds.

Clerical Errors

We also noted clerical errors in the September 1990 IAG:

Total project costs are understated by \$15,000. The "Previous Amount" should be \$50,815,000 (rather than \$50,800,000) and "Amended Total" should be \$87,069,800 (rather than \$87,054,800).

The funding method is indicated as "**Allocation Transfer-Out**"; however, per NIEHS and EPA officials the funding method should be "**Reimbursement Agreement**."

The project title "**Allocation Transfer for Superfund Ongoing Responsibilities**" is misleading and may have caused some confusion with regard to the funding method. The agreement was initially established as an allocation transfer in 1987; however, after discussions between NIEHS and EPA, a decision was made to treat the IAG as a reimbursable agreement. The project title has not been revised to correctly reflect the appropriate funding method.

In addition, we believe that the IAG special conditions should be revised to clarify the NIEHS billing requirements. Since the IAG was initially established as a transfer allocation and the IAG was not modified, the billing procedures have not been formalized to reflect the requirements for a reimbursable agreement. Our review of billings is discussed in more detail in a separate section of this report entitled "**Requests for Reimbursement**." We believe that the current billing requirements should be specified in order to ensure compliance with the agreed-upon procedures.

We discussed the delays and clerical errors in the IAG with EPA officials who cited administrative oversight as the cause.

Interagency Agreements for Fys 1991 and 1992

We determined that the IAG for FY 1991 was executed in July 1991. This was a slight improvement over FY 1990; however, we believe that the IAG could still be executed in a more timely manner. As of January 6, 1992, the IAG for FY 1992 had not been executed.

Conclusion and Recommendations

In order to safeguard HHS assets and resources, we believe that it is the NIEHS' responsibility to ensure the timely establishment of a duly executed IAG with EPA for Superfund activities. We also believe that it is the NIEHS' responsibility to ensure the accuracy of the data contained in the IAG. Therefore, we recommend that the Director of NIH:

1. take a more aggressive role in ensuring the establishment of the FY 1992 IAG in a timely manner; and
2. ensure the accuracy of the IAG.

PHS Comments

The PHS concurred with our recommendations and have agreed to pursue with appropriate EPA staff the accomplishment of a more accurate and timely agreement. The entire text of PHS' comments is included in Appendix B.

Reimbursement Billings

Our audit indicated that problems regarding requests for reimbursement, which were reported in our previous audit (A-04-90-04003), continue to exist. The OIG recommended that NIH adjust the billing for FY 1987 to reflect disbursements; bill EPA for disbursements to date for FYs 1988 and 1989; and prepare reimbursement requests on a quarterly basis in the future. The PHS responded that NIH had billed EPA for Superfund activities for FYs 1988 and 1989 and would provide reimbursement billings on a quarterly basis in the future. In addition, PHS stated that a review of the current accounting records reflected that all funds awarded in FY 1987 were expended; therefore, the billing for FY 1987 was accurate and not overbilled as stated in the audit report.

Our current audit confirmed that Superfund billings exceeded disbursements for FY 1987 by \$17,191. The amount billed by NIH in December 1987 represented total obligations as of

September 30, 1987 and no adjustments have been made. We found that a grant award was revised in August 1988 to reflect a decrease in the amount awarded. This adjustment reduced the FY 1987 obligations by \$2,742. As a result of the decrease in obligations, the NIH extramural billing exceeded the actual disbursements by \$2,742 for FY 1987. In addition, as of January 1991, the FY 1987 intramural billing exceeded disbursements recorded in the accounting records by \$4,445, and the FY 1987 accounting records are overstated by \$10,004 due to a clerical error *in* March 1990. Therefore, the FY 1987 intramural billing actually exceeded disbursements by \$14,449 after correcting the clerical error.

In addition, as of January 1991 the NIH records showed:

For FY 1988 intramural billings had not been submitted for disbursements totaling \$251,320; whereas, extramural billings exceeded disbursements by \$6,198.

- For FY 1989 intramural billings had not been submitted for disbursements totaling \$57,810; whereas, extramural billings exceeded disbursements by \$3,395,586.

For FY 1990 intramural billings exceeded disbursements by \$647,625; whereas, extramural billings had not been submitted for disbursements totaling \$1,764,835.

The NIH was not able to provide documentation to support the amounts billed. In addition, we were not provided with written documentation of an agreement between NIEHS and EPA which authorizes advance billings under the IAG.

In our prior audit, we reported that financial reports provided to NIEHS by NIH did not enable the user to know the status of Superfund activities. We noted that disbursement and obligation information could be extracted, with difficulty, from the NIH records. However, the information was not readily available to facilitate management oversight, decision making and review.

Conclusions and Recommendations

We believe that our recent work confirms that the financial records do not provide management sufficient information on the status of Superfund activities. We believe that the problems with the billings could have been detected, and the PHS response to our prior audit would have been accurate if the accounting records had readily provided the financial status of Superfund activities. Under the current system, we believe that inaccurate billings are at risk of going undetected.

The NIH has billed EPA in excess of actual disbursements for Superfund activities for FY 1987. In addition, intramural and extramural billings for **FYs** 1988 through 1990 have been inconsistent. We were not provided with documentation of a written agreement between NIEHS and EPA which would allow for advance billings. The NIH was not able to provide documentation which supported the amounts billed on the reimbursement requests. We recommend that NIH:

1. revise current billings for the amounts **over/underbilled**;
2. maintain adequate documentation to support the amounts billed; and
3. maintain records which will enable the user to determine the status of the Superfund activities.

PHS Comments

The PHS concurred with our recommendations and stated that revised billings had been submitted to EPA during the first part of FY 1992 that reflect actual disbursements. They stated that currently quarterly billings are being prepared based on recorded disbursements. The PHS comments also indicated that they had begun maintaining a LOTUS spreadsheet to supplement the accounting records and provide an audit trail for the billings. The entire text of **PHS'** comments is included as Appendix B.

Time and Attendance Procedures

The NIEHS does not have written procedures requiring mandatory completion of time reports by all employees. According to NIEHS officials, only the employees who participate in the flexible time program are required to complete time reports. However, for the **most** part, the eight employees assigned to Superfund activities do complete time reports and certify the actual hours worked. There is a requirement on the employee time report to obtain supervisory certification.

We found that one Superfund employee, an off-site expert, did not adequately keep the timekeeper informed about his **time**. The individual is paid by the hour for actual hours worked. The HHS Guide for Timekeepers states that employees are responsible for keeping the timekeeper informed about their **time**. We found four instances where timecards for the

individual were more than one period late. The timekeepers guide specifically addresses late timecards for experts/consultants:

- "Rule 3: If you send in an Expert/Consultant timecard more than one pay period late, you must send a letter,
- o explaining why it is late
 - o signed by the supervisor or administrative officer
 - o stating why you could not send in the timecard on **time**."

We determined that letters were submitted by the timekeeper for the late submission of timecards; however, the signature of the supervisor or administrative officer was not obtained in accordance with the HHS policies.

In efforts to improve timekeeping procedures, the administrative officer has instructed the timekeeper to telephone the expert and verbally obtain the hours worked each pay period. The time report is then completed by the timekeeper based on verbal communications.

We found the NIEHS practice of not requiring mandatory completion of time reports by employees has led to inconsistencies in reporting time and attendance data. For example, we noted that two time reports had been prepared for the same employee (the off-site expert) for pay period ending date July 28, 1990. One time report indicated 3 hours worked and was certified by the employee's supervisor. The other time report indicated 8 hours worked and was certified by the Director, Division of Extramural Research and Training. The individual was paid for 11 hours. Although this individual was not over paid, we believe that allowing two time reports for one individual for the same pay period does not comply with established internal controls for payroll transactions.

In addition, we noted **one** instance where an employee's time report and the timecard indicated leave hours; however, the approved Application for Leave (SF-71) was not present in the records maintained by the timekeeper. We also found one instance where the supervisor's certification was omitted from the time report prepared by the employee.

Conclusion and Recommendations

The NIEHS did not always adhere to established HHS policies for timekeepers. We believe that a written procedure

requiring mandatory completion of time reports by employees and certification of hours worked by supervisors would improve internal controls over payroll data. We recommend that NIH:

1. establish written policies and procedures requiring mandatory completion of time reports by employees and certification by supervisors; and
2. ensure that HHS's policies and procedures for timekeepers are followed.

PHS Comments

The PHS concurred with our recommendations and stated that NIEHS will reemphasize to its staff the need to comply with personnel policies and procedures. The entire text of PHS' comments is included in Appendix B.

FOLLOW-UP OF PRIOR REVIEW

As part of our current audit, we followed up on the recommendations contained in our prior review (A-04-90-04003 issued on February 26, 1991) to determine whether NIEHS had taken corrective measures in response to our report. The NIEHS had implemented several of our recommendations. Corrective measures included:

- implementing record retention procedures to maintain documentation for personal services and fringe benefit costs;
- monitoring personnel costs to assure their allowability and allocability;
- requiring written documentation for correcting entries in the accounting records;
- ensuring professional services orders are timely and that the actual dates of performance can be verified; and
- recording and claiming from EPA the direct cost of supplies associated with the Superfund program.

In addition, NIEHS/NIH are currently proposing methods to record overhead charges for Superfund activities in order to claim from EPA the indirect cost associated with the Superfund program.

We were provided with documentation for a sample of personal services and fringe, benefit costs on which we could not express an opinion in the prior report. Based on this documentation and reviews of personal services cost in our FY 1990 and FY 1991 audits we accept the \$251,281 as supported.

Our current audit confirmed that improvements are still needed in the areas of the timekeeping function and the requests for reimbursement. Recommendations were made in these areas in our prior report; however, our recent review indicates that these areas still require management attention and corrective actions for a more efficient and effective organization (as previously discussed in this report).

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We would appreciate being advised within 60 days on the status of corrective actions taken or planned on each recommendation. Should you wish to discuss the issues raised by our review and recommendations, please contact me or your staff may contact Daniel W. Blades, Assistant Inspector General for Public Health Service Audits, at (301)443-3582.

APPENDICES

National Institute of Environmental Health
Summary of Status of Superfund Financial Activity
as of September 30, 1990

Description	Obligations	Disbursements	Unliquidated Obligations
Fiscal Year 90 Funds:			
Personnel Services	\$271,632	\$253,821	\$17,811
Contractual Services	808,697	133,152	675,545
Travel	55,650	40,960	14,690
Supplies	2,427	2,427	0
Equipment	38,170	38,014	156
Grants	35,094,200	1,764,835	33,329,365
FY 90 Subtotal (Note 1)	\$36,270,776	\$2,233,209	\$34,037,567
Fiscal Year W Funds:			
FY 90 Transactions	(\$54)	\$11,954,327	
Cumulative Transactions 10/1/86 Thru 9/30/89	21,875,093	1,255,796	
FY 89 Cumulative thru 9/30/90 (Note 2)	\$21,875,039	\$13,210,123	\$8,664,916
Fiscal Year 88 Funds:			
FY 90 Transactions		\$9,617,611	
Cumulative Transactions 10/1/86 Thru 9/30/89	\$15,433,004	5,789,890	
FY 88 Cumulative thru 9/30/90 (Note 2)	\$15,433,004	\$15,407,501	\$25,503
Fiscal Year 87 Funds:			
FY 90 Transactions	\$10,004	\$338,359	
Cumulative Transactions 10/1/86 thru 9/30/89	12,973,251	12,642,375	
FY 87 Cumulative Thru 9/30/90 (Note 2)	\$12,983,255	\$12,980,734	\$2,521
Total Transactions 10/1/86 Thru 9/30/90 (Note 3)			
	\$86,562,074	\$43,831,567	\$42,730,507
Proposed Adjustments:			
FY 87 Funds (Note 4)	(\$10,004)	(\$10,004)	
FY 90 Funds (Note 5)	(14,745)	(14,661)	(\$84)
Subtotal	(\$24,749)	(\$24,665)	(\$84)
Adjusted Total Thru 9/30/90			
	\$86,537,325	\$43,806,902	\$42,730,423

NATIONAL INSTITUTE OF ENVIRONMENTAL HEALTH SCIENCES
NOTES TO APPENDIX A

1. Obligations and Disbursements are transactions recorded in the accounting records during the period October 1, **1989** through September 30, 1990.
2. Obligations and Disbursements consist of summarized information regarding transactions for the period October **1**, 1989 through September 30, 1990 added to the total cumulative including prior proposed adjustments for the period October 1, 1986 through September 30, 1989 from our prior audit report (CIN A-04-90-04003).
3. Total Obligations and Disbursements are the cumulative transactions including proposed adjustments recorded in the accounting records since inception October 1, 1986 through September 30, 1990. Unliquidated Obligations are obligations less Disbursements.
4. In March 1990, a Department of Energy **claim** was processed through the On-Line Payment and Collection System against **FY 87** funds for a voucher which had previously been paid by a NIH check. Due to clerical oversight, NIH credited the wrong CAN when correcting the error. At the time of our review, FY 1987 disbursements and the related obligations were overstated by the \$10,000 error plus central services processing fees of \$4.
5. In **FY 1990**, Obligations of \$11,105 were charged to the incorrect **CAN** 8320896 instead of CAN 8320869 due to a clerical error. In addition, \$3,640 was over obligated for payment of an annual leave when an employee left the institute.

Of the \$14,745 of over obligations recorded, \$14,661 was disbursed. The \$14,661 disbursement consists of a \$3,630 overpayment of an employee's annual leave balance and \$11,021 of the \$11,105 that was charged to the wrong CAN.

of the \$14,745 of over obligations, there are \$84 of unliquidated obligations that have **never** been paid.



Memorandum

Date: . MAY 27 1992

From Assistant Secretary for Health

Subject PHS Comments on Office of Inspector General (OIG) Draft Report "Superfund Financial Activities at the National Institute of Environmental Health Sciences for Fiscal Year 1990," To ~-04-91-04026, February 1992

Inspector General, OS

Attached are the PHS comments on the subject draft report. We concur with the report's recommendations and our comments indicate the steps taken or planned to implement the recommendations.

James O. Mason

James O. Mason, M.D., Dr.P.H.

Attachment:

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DATE SENT	5/28

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PUBLIC HEALTH SERVICE (PHS) COMMENTS ON THE OFFICE OF INSPECTOR
GENERAL (OIG) DRAFT REPORT SUPERFUND FINANCIAL ACTIVITIES AT THE
NATIONAL INSTITUTE OF ENVIRONMENTAL HEALTH SCIENCES
FOR FISCAL YEAR 1990." A-04-91-04026, FEBRUARY 1992

Executive Summary

The OIG stated that the Fiscal Year (FY) 1990 audit disclosed that the National Institute of Environmental Health Sciences (NIEHS) generally administered the fund in accordance with Superfund legislation and that NIEHS had taken several corrective measures in response to the **OIG's** previous report. However, the OIG believes additional internal control weaknesses, i.e., execution of interagency agreements, reimbursement billings, and time and attendance procedures, require NIEHS management's attention and corrective action.

General Comments

With respect to whether PHS is at risk of not fully recovering costs from the Environmental Protection Agency (EPA), we note that the unilateral reduction in FY 1990 funding that decreased the amount ultimately paid by EPA to NIEHS was the result of the **Gramm-Rudman-Hollings** sequester order which affected all agencies. Shortly after EPA notified NIEHS that the funding would be decreased because of the sequester action, NIEHS reduced program disbursements accordingly. As a result, there **was** no loss of resources to HHS.

The Superfund Amendments and Reauthorization Act of 1986 established a program of grants for university-based research and training and a program of grants for training and education of workers engaged in activities related to hazardous waste removal, contamination or emergency response. The NIEHS was specifically authorized by the Superfund legislation to perform these programs. Furthermore, the EPA appropriations bills specifically state the amounts that NIEHS is to receive to carry out its responsibilities. Consequently, the HHS resources applied to Superfund activities are not at risk of not being recovered.

The report's "Executive Summary" states that **NIEHS** was not ensuring that grantees had the capability of managing grant funds prior to award. Based on discussions with OIG staff, we understand that this statement will be deleted from the final report. We have complied with the requirements of the PHS Grants Administration Manual by performing financial management evaluations of grantee accounting systems prior to initial award. As noted above, the OIG concluded that NIEHS has generally administered the fund in accordance with the Superfund legislation.

Also the report's "Follow-Up of Prior Review" section **states** that documentation for \$251,281 **in** personal **services** and fringe benefits costs, which was not provided to OIG during the prior audit, **has** still not been provided. The OIG staff has advised us that the information was provided to them at the audit exit conference. Further, OIG staff has advised that the **final** report will state that the documentation has been provided and the costs were found to be acceptable.

OIG Recommendation

We recommend that the Director of **NIH**: (1) **take a** more aggressive role in ensuring the establishment of the **FY** 1992 interagency agreement in a timely **manner** and (2) ensure the accuracy of the interagency agreement.

PHS Comments

We concur. The Chief, Office of Program Planning and Evaluation, NIEHS, is the Project Officer who has the overall responsibility for the interagency agreement at NIEHS. Although there has been improvement in this area from year to year, we agree that there **is** a need to further expedite the preparation and establishment of an accurate agreement.

In the future, the NIEHS Project Officer will pursue with appropriate EPA staff the accomplishment of a more accurate and timely consummation of the agreement. NIEHS will endeavor to have the agreement in place before the beginning of the **FY** or as early as possible in the **FY**.

We wish to point out that EPA develops the agreement. This lessens the control that NIEHS has over its establishment. Regarding the development of the **FY** 1992 agreement, NIEHS received the proposed **FY** 1992 agreement from EPA in February 1992. After review by the Project Officer and transmittal of corrections to EPA, the **FY** 1992 agreement was signed in March 1992.

OIG Recommendation

We recommend that NIH: (1) revise current billings for the amounts **over/underbilled**; (2) maintain adequate documentation to support the amounts billed; and, (3) maintain records which will enable the user to determine the status of the Superfund activities.

PHS Comments

We concur.

The reimbursement billings to the EPA for **FY 1987** through **FY 1990** were revised during the first part of **FY 1992** to reflect actual disbursements. Current quarterly billings are prepared based on recorded disbursements.

The NIH has established a procedure for maintaining a schedule of Superfund obligations and disbursements on a Lotus spreadsheet. This record supplements the accounting data provided by the NIH Central Accounting **System**. This supplemental **schedule supports** the amounts billed to EPA and provides an audit trail *from* the reimbursement billings to the disbursements recorded in the NIH Central Accounting System.

Regarding the third part of the recommendation and as stated in our comments on the OIG report for **FY 1987** through **PY 1989 (A-04-90-04003)**, we believe that the information in the NIH Central Accounting System provides the necessary financial data to enable users to determine the status of the Superfund activities. This capability, together with that provided by the Standard General Ledger implemented during this FY, with its *new* transactions on reimbursable income report, will provide more **immediate** financial data for management's use in determining the **status** of Superfund activities.

OIG Recommendation

We recommend that **NIH:** (1) establish written policies and procedures requiring mandatory completion of time reports by employees and certification by **supervisors**; and, (2) ensure that **HHS's** policies and procedures for timekeepers **are** followed.

PHS Comments

We concur. Currently there are eight **employees** whose sole responsibility is to work on Superfund activities. **These** employees' labor and fringe benefits costs are charged entirely to the Superfund interagency agreement. We believe that the documentation required by the payroll system and the **HHS** timekeeping policies and procedures is adequate to support the costs of employees who **are** devoted entirely to *one* activity. However, should situations occur where employees need to allocate their effort to more than one activity, i.e., Superfund and other activities, NIEHS will ensure that appropriate time and effort reporting records are prepared by these individuals and signed by their supervisors.

We agree that established HHS policies and procedures on time and attendance must be followed. NIEHS will reemphasize to its staff the need to comply with these requirements.

Most of the problems discussed in the draft report are related to a part-time off-site expert stationed at the University of Kansas. This situation creates unique problems for the timekeeper. However, the Off-site expert's appointment ends in June 1992, and he will no longer be involved in Superfund activities.