June Gibbs Brown
Inspector General

Superfund Financial Activities at the Agency for Toxic Substances and Disease Registry for Fiscal Year 1993 (A-04-94-04543)

Philip R. Lee, M.D.
Assistant Secretary for Health

The attached final report provides you with the results of our audit of the Agency for Toxic Substances and Disease Registry (ATSDR) Superfund Financial Activities for Fiscal Year (FY) 1993. The audit showed that ATSDR generally administered the fund according to the Superfund legislation but that there are areas in need of improvement. The report contains a discussion of these areas and recommendations to the Public Health Service (PHS) for improvement.

In its written response, PHS concurred with our recommendations and provided a plan of corrective action.

Our audit was conducted pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended. This Act 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. Through interagency agreements with the Environmental Protection Agency, ATSDR obligated $59.2 million and disbursed $55.5 million in Superfund resources during FY 1993.

We would appreciate being advised within 60 days on the status of corrective actions. Should you wish to discuss the issues raised by our review, please call me or have your staff contact Joseph E. Vengrin, Acting Assistant Inspector General for Public Health Service Audits, at (202) 619-1157. Please refer to the Common Identification Number A-04-94-04543 in all correspondence relating to this report.

Attachment
SUPERFUND FINANCIAL ACTIVITIES AT THE AGENCY FOR TOXIC SUBSTANCES AND DISEASE REGISTRY FOR FISCAL YEAR 1993
EXECUTIVE SUMMARY

This final report provides the results of our audit of the Agency for Toxic Substances and Disease Registry (ATSDR) Superfund financial activities for Fiscal Year (FY) 1993. We conducted our 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 audit all uses of the Superfund.

The ATSDR receives funds through interagency agreements (IAG) with the Environmental Protection Agency (EPA) to carry out health related and other functions mandated by Superfund legislation. During the period October 1, 1992 through September 30, 1993, ATSDR’s obligations of Superfund resources totaled about $59.2 million and disbursements totaled about $55.5 million.

Our audit showed that ATSDR generally administered the fund according to the Superfund legislation. However, we noted that corrective action is needed in the following areas:

- The Centers for Disease Control and Prevention (CDC) and ATSDR had, subsequent to our FY 1993 audit, agreed to take additional steps to ensure that recipients were aware of audit requirements and follow-up when certain reports were not received. The number of recipients who had not submitted a current audit report declined since our previous audit, but there were still two recipients who were not in compliance with this requirement.

- The CDC and ATSDR did not have procedures in place to ensure that the seven agencies, with which ATSDR had entered into IAGs, met the reporting requirements established in the agreements. As a result, CDC and ATSDR could not provide financial or program reports to show what had been accomplished by four agencies with IAGs to carry out Superfund work at a cost of $2,632,928.

- The CDC, which performs certain administrative functions for ATSDR, did not submit in a timely manner the minority contractors utilization report required by the IAG with EPA.

We are recommending that the Public Health Service (PHS):

- direct CDC and ATSDR to ensure that the two remaining recipients comply with the requirements to have audits conducted and submitted to the appropriate organization.
• direct CDC and ATSDR to ensure that all reporting requirements are met by agencies with which ATSDR has IAGs.

• implement procedures to ensure timely submission of the minority contractors utilization report, and follow up with the Office of the Secretary (OS) to ensure that the report is submitted to EPA in a timely manner.

In its written response to our report, PHS concurred with our recommendations and provided a plan of corrective action.
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ABBREVIATIONS USED

Act                  Comprehensive Environmental Response, Compensation, and Liability Act of 1980
ATSDR                Agency for Toxic Substances and Disease Registry
CDC                  Centers for Disease Control and Prevention
CFR                  Code of Federal Regulations
CIN                  Common Identification Number
Comp. Gen.           Comptroller General Decision
EPA                  Environmental Protection Agency
FY                   Fiscal Year
HHS                  Department of Health and Human Services
IAG                  Interagency Agreement
NEARC                HHS, OIG, National External Audit Review Center
OIG                  Office of Inspector General
OMB                  Office of Management and Budget
OS                   Office of the Secretary
PHS                  Public Health Service
SARA                 Superfund Amendments and Reauthorization Act of 1986
BACKGROUND

The ATSDR, located in Atlanta, Georgia, was created in 1980, as a separate agency of the PHS. However, CDC performs accounting and administrative functions for ATSDR. The CDC is also an agency of PHS within the Department of Health and Human Services (HHS).

The Act mandated the establishment of the Hazardous Substance Response Fund, which is commonly known as 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, which are hazardous to health, and to pay for the removal of toxic substances.

The ATSDR receives funding from EPA to carry out functions mandated by the Act. In carrying out its Superfund responsibilities, ATSDR conducts health assessments, health consultations, pilot health-effects studies, and health surveillance programs. In addition, ATSDR produces toxicological profiles and a listing of areas closed to the public. They also maintain a national registry of serious diseases, illnesses, and persons exposed to toxic substances.

Funds are obligated by ATSDR when it commits to fund activities related to the Act. Funds are disbursed by ATSDR after the activities have been completed. During the period October 1, 1992 through September 30, 1993, ATSDR obligated about $59.2 million and disbursed about $55.5 million in Superfund resources. Of the $55.5 million of disbursements, about $28.3 million were from FY 1993 funds and about $27.2 million were from prior years' funds.

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of our audit were to determine:

- the allowability, allocability, and reasonableness of costs claimed under ATSDR's agreement with EPA;
- whether ATSDR 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 ATSDR was able to accurately record costs on a site-specific basis; and
- whether ATSDR submitted the minority contractors 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 DW75936324-01-0 between EPA's Office of Inspector General (OIG) and HHS/OIG. As part of the current audit, we followed up on the recommendations cited in the prior audit reports that covered Superfund activities for FY 1992 and 1991 to determine if CDC and ATSDR had taken corrective action. For FY 1992, the audit was conducted by HHS/OIG (Common Identification Number (CIN) A-04-93-04518) and for FY 1991, the audit was conducted by KPMG Peat Marwick, Certified Public Accountants, under contract with HHS/OIG (CIN A-15-92-00010).

The CDC provided a financial transactions listing of Superfund obligations and disbursements for the period October 1, 1992 through September 30, 1993. From this listing, we reviewed a stratified random sample of 200 items. The first strata consisted of 50 personnel transactions totaling $106,890. The second strata consisted of 150 nongrant and nonpersonnel disbursement transactions totaling $268,368. In addition, we reviewed a judgmental sample of 25 unliquidated obligation transactions totaling $619,810.

The ATSDR obligated $19,705,536 for 102 grants and cooperative agreements (awards). We verified these obligations to the award documents. The 102 awards were made to 58 recipients. The scope of our audit did not include auditing disbursements by the recipients. Since all 58 recipients received awards over $25,000, they were subject to have independent audits conducted under the Office of Management and Budget (OMB) Circulars A-128 or A-133.

We determined whether the 58 grantees had submitted audit reports in accordance with 45 Code of Federal Regulations (CFR) 74.62. We contacted the HHS OIG National External Audit Review Center (NEARC) and the CDC Grants Management Office to obtain this information. From the FY 1993 award documents, we identified the recipients' project period start date and used it as the basis for determining whether an audit was required and whether a current audit report had been received.

We determined whether ATSDR had IAGs with other Federal agencies. From the IAGs, we determined the reporting requirements and verified whether the required reports were completed properly and submitted timely.

We reviewed ATSDR's system to record costs on a site-specific basis. We identified the total Superfund sites on ATSDR's national listing for FY 1993. We selected a judgmental sample of 20 Superfund sites and conducted a test of the costs charged to these sites.

We performed general tests of compliance with laws and regulations, such as those covering cost principles. In addition, we tested ATSDR's compliance with provisions of the following laws: (1) section 601 of the Economy Act of 1932 and amendments thereto (IAGs); (2) 56 Comp. Gen. 275 (1977) and 57 Comp. Gen. 674 (1978) (inclusion of
overhead in IAGs); (3) section 104(i) of the Act (Functional Requirements of the Agency); and (4) section 105(f) of the Act (minority contractors utilization).

As part of our audit, we evaluated ATSDR's system of internal controls to the extent necessary to accomplish the objectives of the audit. However, our audit did not include a comprehensive evaluation 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
- Equipment
- Other Contractual Services
- Grants and Cooperative Agreements

We conducted our audit in accordance with generally accepted government auditing standards applicable to financial-related audits. Our review was performed at CDC and ATSDR in Atlanta, Georgia, during the period May through August 1994. We performed additional work in our Atlanta Regional Office during September and October 1994.

The PHS provided a written response to our report dated May 4, 1995. The PHS' comments are summarized after each finding. The entire text of the comments is included as an Appendix to the report.

RESULTS OF AUDIT

Our audit showed that CDC and ATSDR:

- generally incurred Superfund obligations and made disbursements for allowable, allocable, and reasonable costs. However, CDC and ATSDR should (1) ensure that the two recipients that had not submitted audit reports comply with this requirement and (2) make improvements to better assure that all reporting requirements established by IAGs are met by agencies providing services for the Superfund.

- had entered into an agreement for CDC to provide administrative support services for a fee. This relates to the issue of charging overhead in accordance with the Economy Act.

- were able to accurately record costs on a site-specific basis.
• submitted a minority contractors utilization report that was supported by relevant data; however, the report was not submitted in a timely manner.

In addition to reporting the results of our audit by objective, we have included compliance and internal control sections as required by generally accepted government auditing standards.

ALLOWABILITY OF COSTS

The Superfund transactions included in our review for the period October 1, 1992 through September 30, 1993, relate to FY 1987 through 1993 funds. The financial transactions were generally properly and accurately recorded. Supporting documentation showed that obligations were incurred and disbursements were made for valid Superfund activities. We found no indication of payments or uses of the Superfund monies, other than those shown in ATSDR’s records as obligations and disbursements. We believe that PHS needs to make improvements in the following areas:

Recipient Audits

In FY 1993, ATSDR entered into grants and cooperative agreements totaling $19,705,536 with 58 recipients. The 45 CFR 74.62 requires that recipients of over $25,000 in Federal funds have independent audits conducted under OMB Circulars A-128 or A-133. All 58 of ATSDR’s Superfund recipients were subject to have independent audits conducted.

The OMB Circular A-128 establishes audit requirements for State and local governments and OMB Circular A-133 sets forth the audit requirements for institutions of higher education and other nonprofit institutions that receive Federal financial assistance. These circulars require that audits shall usually be performed annually but not less frequently than every 2 years.

In prior years, we reported that CDC and ATSDR were not ensuring that recipients were having the required audits performed. Our current review showed that CDC and ATSDR had made improvements in this area. They had agreed to take additional steps to ensure that recipients were aware of audit requirements and follow-up when certain reports were not received. However, at the time of our audit there were still two recipients (one town and one university research group) which had not complied with the established audit requirements. As a result, CDC and ATSDR had no assurance that accounting system weaknesses and the charging of unallowable costs which may have existed were being detected and corrected.
Recommendation

We recommend that PHS direct CDC and ATSDR to ensure that the two remaining recipients comply with the requirement to have audits conducted and submitted to the appropriate organization.

PHS Comments

The PHS agrees that procedures should be established to ensure that audit reports are submitted by all recipients of Federal funds. However, because many of these recipients are funded by numerous agencies, PHS believes that the responsibility for these procedures should be placed at a central control point.

The OS established an HHS Workgroup in 1994 to address this matter. The workgroup, which includes staff from the National Institutes of Health, Office of the Assistant Secretary for Health, OIG, other operating divisions, and the Office of the Assistant Secretary for Management and Budget, is working on the development of a departmentwide system to ensure that single audit reports are submitted by all HHS recipients required to have audits conducted.

In regard to the two reports which had not been received, ATSDR has ensured that the reports have been submitted to NEARC.

Interagency Agreements

In carrying out the Superfund responsibilities, ATSDR entered into IAGs with seven other agencies for various services. The agencies were required by the IAGs to submit to ATSDR quarterly financial and progress reports; quality control/assurance documentation and data; and itemized annual equipment reports.

Our audit showed that CDC and ATSDR did not ensure that all reporting requirements were met by the other agencies. The CDC and ATSDR could not provide financial or program reports to show what had been accomplished under the IAGs with four of the seven other agencies. The costs for services under the 4 agreements totaled $2,632,928. Without obtaining the required reports, CDC and ATSDR did not have information available to show that the costs incurred under these IAGs were allowable, allocable, and reasonable and whether the other agencies fulfilled the requirements of the IAGs.

Recommendation

We recommend that PHS direct CDC and ATSDR to ensure that all reporting requirements are met by agencies with which ATSDR has IAGs.
PHS Comments

The PHS concurred with this recommendation. The CDC and ATSDR will assign responsibility for ensuring that all reporting requirements are met by agencies with which ATSDR has interagency agreements to the ATSDR Superfund project officer.

OVERHEAD

The Economy Act allows agencies of the Federal Government to place orders with other agencies of the Federal Government and to recover the actual costs of these orders. The Comp. Gen. Decisions prescribe that, to be recoverable, indirect costs must be shown, either actually or by reasonable implication, to have benefited the requisitioning agency. In this regard, CDC and ATSDR negotiated a fee of $5,000,000 for the administrative support services CDC provides to ATSDR. The fee is part of ATSDR’s costs that are passed on to the Superfund.

COSTS RECORDED ON A SITE-SPECIFIC BASIS

Our review showed that ATSDR had an automated system in place to accurately record costs on a site-specific basis. In FY 1993, ATSDR accumulated expenses totaling $4,925,694 for 1,497 national Superfund sites. The agency recorded expenses for payroll, supplies, equipment, contractual services, and travel. The ATSDR had Cotton and Company, Certified Public Accountants, develop an indirect cost rate for use in recovering costs associated with Superfund sites.

When EPA requests cost recovery information for a specific site, ATSDR prepares a package identifying all direct costs charged during the specified time frame and applies the appropriate indirect costs. Our test of the various expenses associated with 20 Superfund sites did not disclose any significant problems with the system.

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 November 15, after the end of the FY.

The CDC submits the report to PHS which compiles the reports from various agencies and submits them to HHS/OS. We reviewed the report submitted by CDC and found it to be supported by relevant documentation. However, our review showed that CDC submitted the report to PHS on December 1, 1993, 16 days after the due date. In addition, due to a clerical error, OS did not submit the FY 1993 report to EPA until August 1994. As a result, ATSDR was not in compliance with the IAG with EPA.
Recommendations

We recommend that PHS:

- implement procedures to ensure timely submission of the minority contractors utilization report.

- follow up with OS to ensure that the minority contractors utilization report is submitted to EPA in a timely manner.

PHS Comments

The PHS concurred with these recommendations. The responsibility for ensuring timely submission for the minority contractors utilization report is assigned to the ATSDR Small and Disadvantaged Business Utilization Specialist (SADBUS). In the event that the utilization report cannot be submitted timely to EPA, the SADBUS will provide advance information on ATSDR's minority contractor utilization to EPA, should EPA so desire.

COMPLIANCE

Compliance with laws, regulations, contracts, grants, and IAGs applicable to ATSDR is the responsibility of ATSDR's management. With respect to the items tested, ATSDR complied---except as described in the "Allowability of Costs" and "Minority Contractors Utilization Report" sections of this report---in all material respects, with the provisions of applicable laws and regulations. With respect to items not tested, nothing came to our attention, which caused us to believe ATSDR had not complied, in all material respects, with those provisions.

INTERNAL CONTROLS

The ATSDR 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 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 generally accepted government auditing standards. These matters are discussed under the headings of "Recipient Audits" and "Interagency Agreements" on the preceding pages.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure which, 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.

We would appreciate being advised within 60 days on the status of corrective actions. Should you wish to discuss the issues raised by our review, please call me or have your staff contact Joseph E. Vengrin, Acting Assistant Inspector General for Public Health Service Audits, at (202) 619-1157. Please refer to the CIN A-04-94-04543 in all correspondence relating to this report.
APPENDIX
MEMORANDUM

Date: MAY 4 1995

From: Deputy Assistant Secretary for Health (Management and Budget)


To: 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 actions planned or taken to implement them.

/s/ Tony Itteilag

Anthony L. Itteilag

Attachment

cc:
Assistant Inspector General for Public Health Service Audits, OS.
This draft report provides the results of the OIG audit of the Superfund financial activities of the Agency for Toxic Substances and Disease Registry (ATSDR), Centers for Disease Control and Prevention (CDC), for Fiscal Year (FY) 1993.

The OIG audit found that ATSDR generally administered the Superfund monies in accordance with Superfund legislation. The auditors noted, however, that: (1) two of 58 ATSDR Superfund recipients had not submitted an audit report as required under Office of Management and Budget (OMB) Circulars A-128, "Single Audits of State and Local Governments," and A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions;" (2) CDC and ATSDR did not ensure that other agencies with which ATSDR had interagency agreements for Superfund services had met all of the agreements' reporting requirements; and (3) the minority business utilization report required by the interagency agreement with the Environmental Protection Agency (EPA) had not been submitted timely.

The OIG report makes recommendations to address these matters. The following sets forth the PHS comments on the OIG report's recommendations.

OIG Recommendation

We recommend that PHS direct CDC and ATSDR to ensure that the two remaining recipients comply with the requirement to have audits conducted and submitted to the appropriate organization.

PHS Comments

We concur. However, as we have previously pointed out, the responsibility for ensuring that recipients of Federal funds submit the audit reports required under the provisions of OMB Circulars A-128 and A-133 is not clearly delineated within the Department of Health and Human Services (HHS). We believe that this responsibility should be placed at a central control point within the Federal Government. This is because many of these audits cover recipients that are funded by numerous Federal agencies. This is also necessary to avoid situations where various Federal agencies are independently contacting recipient organizations and requesting the same audits. However, if it is not possible to establish a central control point within the Federal Government, we believe that the responsibility should be at the Office of the Secretary (OS).
level in HHS so that communications with recipients are at least consolidated within the Department.

We note that at PHS' suggestion, OS established an HHS workgroup in 1994 to address this matter. The workgroup, which includes staff from the National Institutes of Health, Office of the Assistant Secretary for Health (OASH), other OPDIVs, OIG, and the HHS Office of the Assistant Secretary for Management and Budget (OASMB), is working on the development of a Department-wide system to ensure that single audit reports are submitted by all HHS recipients required to have single audits conducted.

With regard to the Borough of Pitman in New Jersey and the Georgia Tech Research Corporation in Georgia, the two organizations which the OIG reported as not having submitted an audit report, both organizations have complied with the OMB Circulars' requirement to submit a report.

Since the performance of the OIG audit, the OIG auditors have ascertained that the audit of the Borough of Pitman was included in the audit of the County of Gloucester in New Jersey and that the audit reports for calendar years 1989 through 1993 have been submitted to OIG and OASMB. Further, these audits did not have any findings. OASH will ask OASMB, that in the future, it provides those reports with findings to PHS for further distribution to ATSDR for action as appropriate.

The ATSDR grants management office has also advised that Georgia Tech Research Corporation submitted an audit report for its 1993 FY to the OIG's National External Audit Review Center in Missouri for processing on April 19, 1995.

OIG Recommendation

We recommend that PHS direct CDC and ATSDR to ensure that all reporting requirements are met by agencies with which ATSDR has IAGs [interagency agreements].

PHS Comments

We concur. The CDC and ATSDR will assign responsibility for ensuring that all reporting requirements are met by agencies with which ATSDR has interagency agreements to the ATSDR Superfund project officer.

As part of this responsibility, the ATSDR Superfund project officer will review all of the current agreements and determine which reporting requirements are to be continued, added, or deleted. Once the inventory is completed and the
agreements amended to cite the necessary reporting requirements, the ATSDR Superfund project officer will become the focal point for receiving those reports, will follow up with those agencies which have not provided them, and will review or forward them to other ATSDR officials for appropriate action, e.g., forwarding the financial and equipment reports to the ATSDR grants management officer. These new procedures will go into effect for all interagency agreements which expire in FY 1995 or thereafter.

Regarding the reporting requirements for FYs 1993 (which is the period covered by this OIG audit) and 1994, ATSDR will collect the reports which were submitted or misrouted to other CDC or ATSDR offices, request those which have not been received, review them, and take action as appropriate. Should there be problems in obtaining those reports, ATSDR will use alternative means in order to obtain the necessary assurances and close out the agreements.

**OIG Recommendation**

We recommend that PHS:

- Implement procedures to ensure timely submission of the minority business utilization report.
- Follow up with OS to ensure that the minority business utilization report is submitted to EPA in a timely manner.

**PHS Comments**

We concur. The ATSDR procedures assign responsibility to the ATSDR Small and Disadvantaged Business Utilization (SADBUS) specialist for the timely submission of the Superfund minority contractor business utilization report. Starting with the utilization report due for FY 1995, the ATSDR SADBUS specialist will ensure that ATSDR submits the utilization report in sufficient time to permit review by OASH and OS, so as to allow transmittal of the report to EPA by the due date. The ATSDR SADBUS specialist will also follow up with OASH and OS officials when necessary to ensure the timely transmittal of the report to EPA. In cases where it appears that the utilization report may not be submitted timely to EPA, the ATSDR SADBUS specialist will provide advance information on ATSDR’s Superfund minority business utilization to EPA, should EPA so desire, pending formal transmittal of the report by OS.