

**Memorandum**

DEC 17 1998

Date Deputy Inspector General
for Audit Services

From

Subject Superfund Financial Activities at the Agency for Toxic Substances and Disease Registry for Fiscal Year 1997 (CIN: A-04-98-04220)

To Barry L. Johnson, Ph.D.
Assistant Administrator
Agency for Toxic Substances and Disease Registry

The attached final report discusses the results of our audit of Superfund financial activities at the Agency for Toxic Substances and Disease Registry (ATSDR) for Fiscal Year (FY) 1997.

Under interagency agreements with the Environmental Protection Agency (EPA), ATSDR obligated about \$63.9 million in Superfund monies during FY 1997 and disbursed approximately \$58.8 million obligated during and prior to that year.

The audit showed that ATSDR generally administered Superfund monies in accordance with applicable laws and regulations. However, we found that ATSDR should:

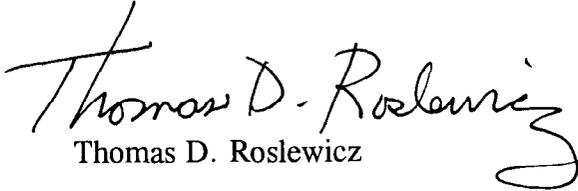
- make improvements to ensure that all grantees obtain and submit required independent audit reports;
- follow established procedures to ensure that all Superfund related grantee findings are resolved;
- ensure that all Superfund grantees submit the required progress and financial reports;
- follow established procedures to ensure that all personnel services transactions are accurately supported;
- ensure that agencies with which it has interagency agreements submit the required progress and financial reports;
- maintain adequate supporting documentation related to its interagency agreement for administrative and support services with the Centers for Disease Control and Prevention; and

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- follow established procedures to ensure that all site specific costs charged to Superfund are adequately supported or appropriately allocated between sites.

In its written comments, ATSDR generally concurred with our recommendations. We have summarized ATSDR's response in our discussion of each audit finding. The full text of ATSDR's response is included as the Appendix to the report.

We would appreciate being advised on the status of corrective actions within 60 days of the date of this memorandum. Should you wish to discuss the issues raised in our report, please call me or have your staff contact Joseph J. Green, Assistant Inspector General for Public Health Service Audits, at (301) 443-3582. To facilitate identification, please refer to Common Identification Number A-04-98-04220 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 AGENCY FOR TOXIC
SUBSTANCES AND DISEASE REGISTRY
FOR FISCAL YEAR 1997**



JUNE GIBBS BROWN
Inspector General

DECEMBER 1998
A-04-98-04220

EXECUTIVE SUMMARY

This report discusses the results of our audit of Superfund financial activities of the Agency for Toxic Substances and Disease Registry (ATSDR) during Fiscal Year (FY) 1997. 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 Superfund monies through an interagency agreement with the Environmental Protection Agency (EPA) to carry out health related activities mandated by Superfund legislation. From October 1, 1996 through September 30, 1997, ATSDR's obligations of Superfund monies totaled about \$63.9 million and disbursements totaled about \$58.8 million of funds obligated during and prior to that year.

Our audit showed that ATSDR generally administered Superfund monies in accordance with applicable laws, regulations, and other requirements. However, we noted that ATSDR needs to implement corrective actions in the following seven areas:

- The ATSDR did not follow established procedures to ensure that all grantees obtain and submit independent audits, as required by Federal regulations. Of the 23 grantees which were required to obtain audits of ATSDR award expenditures, 1 did not submit a report at the time of our review. As a result, ATSDR had no assurance that Superfund monies claimed under this award, totaling about \$3.8 million, were allowable and reasonable or that the grantee had adequate controls to ensure compliance with applicable laws, regulations, and guidelines. Prior audits have identified problems in this area.

We had recommended that ATSDR ensure that: the grantee submit the required audit report on its Superfund expenditures as soon as possible, and that the Centers for Disease Control and Prevention (CDC) utilize established controls to ensure that all Superfund grantees submit the required audit reports in the future.

According to ATSDR, the report that had not been received has now been received by the Department of Health and Human Services (HHS) Office of Inspector General (OIG) National External Audit Review Center (NEARC). The ATSDR stated that it is currently implementing guidance recommended in the HHS Assistant Secretary for Management and Budget memorandum entitled, "Grant Monitoring - Delinquent Recipients," to correct the problem noted in our audit.

- The ATSDR did not follow established procedures to ensure that all Superfund related findings were appropriately resolved, as required by the HHS Grants

Administration Manual. We identified two grantee audit reports containing Superfund related findings which were not appropriately resolved by CDC.

We are recommending that ATSDR follow up to ensure that Superfund related findings for the two grantee audit reports are resolved and ensure that established procedures are followed to resolve Superfund related findings appropriately.

The ATSDR stated that all audits are resolved; however, they cannot always be resolved in a timely manner. The ATSDR believes this occurs because the CDC Cost Advisory Activity has insufficient resources to carry out its audit resolution duties.

- The ATSDR did not ensure that grantees submitted all the required progress and financial status reports as required by the Notice of Cooperative Agreements. We reviewed 25 awards and found that only 1 submitted all the required reports on a timely basis. The ATSDR should ensure that CDC strengthen controls to ensure compliance with the monitoring requirements and timeliness of required reports.

The ATSDR stated that CDC will ensure that progress and financial status reports are received in a timely manner by notifying grantees prior to the due date that the reports are due.

- The ATSDR did not ensure that all personnel service transactions were accurately supported as required by established procedures. The ATSDR began utilizing a new timekeeping system established by CDC in Calendar Year (CY) 1997. The new timekeeping system does not require the timekeepers to maintain manual records. Therefore, we assessed the reliability of the new timekeeping system by reconciling it to the leave statements produced by payroll. We identified eight instances where employees' leave statements did not reconcile into CDC's timekeeping system and eight instances where the timekeeping system indicated employees had negative credit hour balances.

We are recommending that ATSDR: (1) take appropriate action to correct all employee leave balances; (2) ensure that timekeepers and supervisors verify the accuracy of time and attendance transactions; (3) establish procedures to require timekeepers to reconcile the timekeeping system to the payroll statements; (4) amend the timekeeping system to allow timekeepers to view employees' current credit hour balances; and (5) develop controls within the timekeeping system to alert timekeepers of negative credit hour balances.

The ATSDR agreed with our recommendations and stated that it has corrected all leave balances for employees still at ATSDR and has begun corrective action on the procedural recommendations.

- The ATSDR did not ensure that CDC, with which it had a reimbursable agreement which included 17 projects with 3 CDC agencies, submitted financial and progress reports required for monitoring activities. The interagency agreement required the agencies to submit quarterly financial and progress reports.

We are recommending that ATSDR ensure that all agencies, with which it has reimbursable projects, submit the required financial and progress reports or revise the reporting requirements to reflect the current reporting needs.

The ATSDR stated that it would ensure that all required reports are submitted by the agencies with which it has interagency agreements.

- The ATSDR did not document the reasonableness of \$5 million paid to CDC for FY 1997 administrative and support services. Absent such documentation, ATSDR cannot assure that the Superfund is not being undercharged or overcharged. We identified this problem in the FY 1994, FY 1995, and FY 1996 audits. In response to the FY 1994 audit, the Public Health Service (PHS) committed CDC to develop a cost allocation plan to support and document the basis for the administrative and support costs charged to ATSDR. However, our audits of FY 1995 and FY 1996 administrative and support costs showed that CDC had not developed or implemented a cost allocation plan as agreed.

In response to our FY 1995 audit report, CDC contracted with a consultant group to develop a methodology for allocating costs. Currently, CDC is developing a system for allocating administrative costs; however, we cannot express an opinion because the system is not complete, and some costs have not been identified.

We are recommending that ATSDR either (1) obtain documentation showing the reasonableness of charges for FY 1997 administrative and support services from CDC; or (2) assure that the Superfund is refunded payments for the charges that cannot be supported. We are also recommending that ATSDR not pay such charges in future years unless supporting documentation for them is provided. The documentation should include all records and reports necessary to ensure that charges are reasonable for the services actually provided, and that charges for the services were consistent with similar charges to CDC's own programs.

The ATSDR's comments did not directly address our recommendations. The comments stated that CDC initiated a two-phase effort to develop supporting documentation for the distribution of indirect costs across all CDC programs. Phase I of this effort was a comprehensive study of the CDC budget process for the Office of the Director. The CDC initiated Phase II, the cost allocation methodology, in FY 1998.

- The ATSDR did not ensure that all site specific costs charged to Superfund were adequately supported or appropriately allocated between sites as required by established procedures. Our review of 25 sites identified 5 sites where site specific costs were not supported by adequate documentation or allocated appropriately between sites.

We are recommending that ATSDR follow established procedures to ensure that all site specific costs are adequately supported and appropriately allocated between sites.

The ATSDR stated that it had corrected all of the instances where costs were charged to sites incorrectly. The ATSDR is researching with CDC and the General Services Administration (GSA) a method to correctly charge one type of error that was noted in our review.

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GLOSSARY OF ABBREVIATIONS AND ACRONYMS

Act	Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended
ATSDR	Agency for Toxic Substances and Disease Registry
CDC	Centers for Disease Control and Prevention
C.F.R.	Code of Federal Regulations
Comp. Gen.	Comptroller General Decision
CY	Calendar Year
EPA	Environmental Protection Agency
FY	Fiscal Year
GMB	Grants Management Branch
GSA	General Services Administration
HHS	Department of Health and Human Services
NEARC	National External Audit Review Center
OIG	Office of Inspector General
OMB	Office of Management and Budget
PHS	Public Health Service
SARA	Superfund Amendments and Reauthorization Act of 1986

BACKGROUND

The ATSDR, located in Atlanta, Georgia, was established in 1980. Although formally designated as a separate agency reporting directly to the Secretary of HHS, ATSDR is closely related to CDC on an operational basis. The Director of CDC is also responsible for overall direction of ATSDR, and CDC performs administrative and support functions for ATSDR.

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

The ATSDR receives Superfund monies through interagency agreements with EPA to carry out health related activities mandated by the Act. To fulfill its Superfund responsibilities, the ATSDR conducts health assessments, health consultations, pilot health-effects studies and health surveillance programs. In addition, ATSDR produces toxicological profiles, a listing of areas closed to the public, and a national registry of serious diseases, illnesses, and persons exposed to toxic substances.

Funds are obligated by ATSDR when it commits to carry out activities related to its Superfund responsibilities, and are disbursed when those activities have been completed. During the period October 1, 1996 through September 30, 1997, ATSDR obligated about \$63.9 million of Superfund monies and disbursed about \$58.8 million. Of the \$58.8 million of disbursements, about \$24.7 million were from FY 1997 funds and about \$34.1 million from prior years' funds.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to determine whether:

- the costs claimed by ATSDR were allowable, allocable, and reasonable in accordance with applicable laws and regulations and the terms of its agreement with EPA;
- the ATSDR charged overhead costs in accordance with Section 601 of the Economy Act of 1932 and Comptroller General (Comp. Gen.) Decisions 56 Comp. Gen. 275 and 57 Comp. Gen. 674;
- the ATSDR was able to accurately record costs on a site-specific basis; and
- the ATSDR submitted a Minority Contractor Utilization Report to EPA that was accurate and timely.

Our audit was performed to comply with Section 111(k) of the Act, as amended by SARA, which mandates that the OIG of any Federal agency with Superfund responsibilities audit all uses of Superfund monies.

To test the allowability, allocability, and reasonableness of Superfund disbursements, we obtained records for ATSDR staff and financial transaction listings prepared by CDC for FY 1997. We reviewed a stratified random sample of 100 items from these listings. The first stratum included 30 personnel transactions representing \$63,619 of the \$15,495,781 of personnel costs claimed by ATSDR. The second stratum included 70 transactions totaling \$179,945 of the \$17,134,905 of non-personnel, non-grant disbursements during the year.

The ATSDR entered agreements with universities, State departments of health and other nonprofit organizations to carry out its responsibilities under the Act. We verified the \$23,113,176 of obligations recorded in the accounting records to the CDC awards system information. The scope of our audit did not include auditing disbursements by the grantees.

These agreements are subject to independent audit under Part 74 of Title 45 of the Code of Federal Regulations (C.F.R.). We obtained information from CDC and OIG NEARC to determine whether ATSDR's grantees had submitted audit reports as required. Also, we reviewed 25 judgmentally selected files to determine whether grantees were submitting all the required progress and financial reports.

We reviewed ATSDR's interagency agreements to identify the reporting requirements and determined if those requirements were met during the year.

We tested ATSDR's capacity to properly account for costs on a site-specific basis by reviewing procedures and supporting documentation for 25 judgmentally selected sites.

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

- Section 601 of the Economy Act of 1932 and amendments thereto;
- 56 Comp. Gen. 275 (1977);
- 57 Comp. Gen. 674 (1978);
- Section 110 of the Act (functional requirements of the agency); and
- Section 105(f) of the Act (minority contractors).

As part of our audit, we evaluated ATSDR's system of internal controls to the extent necessary to accomplish our audit objectives. 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 purposes of this audit, we classified significant internal controls in eight categories:

- Funding Authority;
- Financial Reporting;
- Payroll and Timekeeping;
- Travel;
- Equipment;
- Other Contractual Services;
- Grants and Cooperative Agreements; and
- Reporting (Audits).

We conducted our audit in accordance with generally accepted government auditing standards applicable to financial related audits. Audit work was performed at ATSDR and CDC during the period December 1997 through March 1998.

We followed up on the corrective actions taken in response to the FY 1996 report on Superfund financial activities (Common Identification Number A-04-97-04599).

A draft of this report was provided to ATSDR for review and comment on September 15, 1998. The ATSDR's written comments, dated October 30, 1998, are summarized after each finding and are presented in their entirety in the Appendix.

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 make improvements to ensure that: (1) all grantees obtain and submit required independent audit reports; (2) Superfund related audit findings are appropriately resolved; (3) grantees submit progress and financial reports as required by the agreements; (4) all personnel service transactions are accurately recorded; and (5) agencies with which ATSDR enters into interagency agreements submit required financial and progress reports.
- had entered into an agreement for CDC to provide administrative and support services for a cost of \$5 million. However, CDC had not maintained adequate supporting documentation regarding the cost in accordance with applicable laws and regulations and the terms of its agreement with EPA.
- generally supported costs charged on a site specific basis. However, ATSDR should follow established procedures to ensure that all site specific costs are adequately supported and appropriately allocated between sites.
- had submitted the Minority Contractor Utilization Report to EPA in a timely manner as required by its interagency agreement.

Our findings and recommendations related to our four objectives are presented below. In addition, we discuss the results of our audit work related to ATSDR's internal control systems.

ALLOWABILITY, ALLOCABILITY, AND REASONABLENESS OF CLAIMED COSTS

Audit Reports

We found that ATSDR did not ensure all grantees obtained and submitted independent audits as required under Part 74 of Title 45, C.F.R. and Office of Management and Budget (OMB) Circular A-133. Part 74 of Title 45 of the C.F.R. and OMB Circular A-133 require that organizations receiving Federal awards must obtain and submit independent audits performed in accordance with generally accepted government auditing standards. According to the HHS Grants Administration Manual, Chapter 1-13, the grants management official is responsible, at a minimum, for ensuring the receipt of the required audit reports. These audit reports provide the primary basis for ATSDR to ensure that the costs charged to Superfund grants and cooperative agreements are allowable, allocable, and reasonable; that resources are protected against fraud, waste, and abuse; and that reliable data are maintained and reported.

We reviewed the status of all audit reports submitted by Superfund grantees. We considered audits covering grantees FY 1996 as current. According to OMB Circular A-133, grantees have 1 year plus 30 days from the end of their FY to submit an audit report. Of the 23 grantees which were required to obtain audits of ATSDR expenditures, 1 did not submit a report. As a result of not ensuring the receipt of the audit report, ATSDR has no assurance that Superfund monies claimed under this award, totaling about \$3.8 million, was allowable and reasonable or that the grantee had adequate controls to ensure compliance with applicable laws, regulations, and guidelines.

A similar situation was found in our audits on ATSDR's Superfund financial activities for FYs 1992, 1993, 1995, and 1996. In response to our FY 1993 audit, PHS agreed that procedures should be established to ensure audit reports were obtained from all Superfund grantees. In response to our draft FY 1996 audit report, ATSDR agreed to establish appropriate procedures to prevent future noncompliance. Our review indicates that established procedures are not always being followed.

Recommendations

We recommend that ATSDR ensure that:

- the grantee submits the required audit report on its Superfund expenditures as soon as possible; and
- the CDC utilizes established controls to ensure that all Superfund grantees submit the required audit reports.

ATSDR Comments

According to ATSDR the report that had not been received has now been received by HHS OIG NEARC. The ATSDR stated that it is currently implementing guidance recommended in the HHS Assistant Secretary for Management and Budget memorandum entitled, "Grant Monitoring - Delinquent Recipients," to correct the problem noted in our audit.

Resolution of Audit Findings

We reviewed the HHS OIG Audit Information Management System data for 65 grantees and identified 2 audit reports with Superfund related findings which had not been appropriately resolved by CDC. The Grants Administration Manual, Chapter 1-105-30, requires CDC to resolve audit findings within six months of receipt of the audit report by NEARC. According to CDC's Procedures for Processing Audit Reports, the CDC Cost Advisory Activity prepares a transmittal to the Chief, Grants Management Branch (GMB). The GMB prepares a letter to the grantee identifying the related audit findings for resolution and establishing a due date for grantee response.

Our review showed that these audit reports were processed by NEARC in May 1997 and July 1997, and response due dates were established for the grantee. However, CDC did not receive any response from the grantees and no further follow-up action was taken to resolve the Superfund related findings. We believe that CDC is not following established procedures to ensure the appropriate resolution of Superfund related audit findings.

Recommendations

We recommend that ATSDR ensure that:

- the CDC follow up to ensure that Superfund related findings for the two grantee audit reports are resolved; and
- the CDC follow established procedures to resolve Superfund related audit findings.

ATSDR Comments

The ATSDR stated that it has resolved one of the audits in question and is waiting for a response from the grantee on the other audit before it can be resolved. The ATSDR stated that all audits are resolved; however, they cannot always be resolved in a timely manner. The ATSDR believes this occurs because the CDC Cost Advisory Activity has insufficient resources to carry out its audit resolution duties.

Grantee Progress and Financial Reports

The ATSDR did not ensure that grantees submitted all the progress and financial status reports required by the Notice of Cooperative Agreements. We reviewed 25 awards and found that all 25 were required to submit annual progress and financial status reports. In addition, 9 of the 25 grantees were required to also submit quarterly progress reports. Our review showed that only one submitted all the required reports on a timely basis.

Some of the errors relating to the progress reports were attributable to a weakness in the reporting requirements. According to CDC officials, the nine grantees which were required to submit quarterly progress reports should not be required to submit a fourth quarter and annual progress report because the reports duplicate information.

Recommendations

We recommend that ATSDR ensure that:

- the CDC strengthen controls to ensure compliance with the monitoring requirements and timeliness of progress and financial status reports; and

- the CDC assess the necessity of quarterly reporting and remove this requirement from grants and cooperative agreements if it is not necessary.

ATSDR Comments

The ATSDR stated that CDC will ensure that progress and financial status reports are received in a timely manner by notifying grantees prior to the due date that the reports are due.

Personnel Service Transactions

The ATSDR did not ensure that all personnel service transactions were accurately supported as required by established procedures. The ATSDR began utilizing a new timekeeping system established by CDC in CY 1997. The new timekeeping system does not require the timekeepers to maintain manual records. Therefore, we assessed the reliability of the new timekeeping system by reconciling it to the leave statements produced by payroll. We identified two conditions where the system appeared to be deficient.

We found eight instances where employees' leave statements did not reconcile to CDC's timekeeping system. For example, one employee had donated 8 hours of leave, and this was not recorded in the CDC timekeeping system. Another employee started work in one pay period, but his leave was not started in the CDC system until the next pay period, making both the annual and sick leave balances incorrect. Some of these instances appear to be system errors which ATSDR assured us that CDC User Support is attempting to correct. However, we believe additional procedures should be considered to identify these conditions during normal timekeeping duties.

The CDC's policy requires timekeepers to process time and attendance information into the automated system. Also, the policy requires supervisors to approve all time and attendance transactions. The CDC Human Resources Management Manual states that supervisors are responsible for certifying the accuracy of time and attendance. However, the policy does not specify that the timekeepers are responsible to ensure that the timekeeping system agrees with the payroll statements. Although we recognize that this procedure may identify some instances where there is a delay in processing timekeeping information, we believe that it will also identify errors which need to be resolved.

In addition, we identified eight instances where the timekeeping system indicated employees had negative credit hour balances. The CDC Human Resources Management Manual states that: "Debit hours (i.e., taking time off from the basic work requirement in advance of accruing the requisite number of credit hours) are not permissible." Our review of the ATSDR's new timekeeping system indicated that the system does not allow timekeepers to view employees' current credit hour balances. Additionally, there are no controls within the timekeeping system to alert the timekeeper when an employee's credit hour balance will

become negative. We believe the eight instances identified are a result of this deficiency in the timekeeping system.

Recommendations

We recommend that ATSDR:

- take appropriate action to correct all employee leave balances;
- ensure that timekeepers and supervisors verify the accuracy of time and attendance transactions;
- establish procedures to require timekeepers to reconcile the timekeeping system to the payroll statements;
- amend the timekeeping system to allow timekeepers to view employees' current credit hour balances; and
- develop controls within the timekeeping system to alert timekeepers of negative credit hour balances.

ATSDR Comments

The ATSDR agreed with our recommendations and stated that it has corrected all leave balances for employees still at ATSDR and has begun corrective action on the procedural recommendations. The ATSDR has sent out timekeeping procedures to supervisors; is working with timekeepers in training classes; and is working with the CDC Office of Program Support, Information Resources Management Office, Support Help Desk, to implement changes in the system.

Interagency Agreements

The ATSDR did not ensure that CDC, with which it has a reimbursable agreement, submitted financial and progress reports required for monitoring activities. The interagency agreement required the agencies to submit quarterly financial and progress reports.

The ATSDR entered into an interagency agreement with CDC which included 17 projects within 3 CDC agencies. All 17 projects were required to submit quarterly reports; however, we found that no reports were submitted for 10 projects and only annual reports were submitted for 7 projects. All of the required reports were not submitted for any of the projects.

According to the Acting Director of ATSDR's Office of Program Operations and Management, some of the reporting requirements indicated in the interagency agreement were not necessary and will be removed from the next FY's agreement. In addition, the ATSDR official stated that the quarterly reporting requirements will be revised to annual requirements in the next FY's agreement.

Recommendations

We recommend that ATSDR:

- ensure that all agencies, with which it has reimbursable projects, submit the required financial and progress reports; and
- if necessary, revise the reporting requirements to reflect the current reporting needs.

ATSDR Comments

The ATSDR stated that it would ensure that all required reports are submitted by the agencies with which it has interagency agreements. Some of the reporting requirements were determined to be unnecessary and have been changed in the current FY's agreement.

Overhead Costs

The ATSDR did not document the reasonableness of the \$5 million paid to CDC for administrative and support services.

Section 601 of the Economy Act of 1932 authorizes agencies such as ATSDR to ". . . place orders with any other such department, establishment, bureau or office for materials, supplies, equipment, work, or services . . ." needed to accomplish its mission. As shown below, any amounts charged for those services must reflect only the actual costs of the services.

The 56 Comp. Gen. 275 specifies, in part, that:

"The statute as thus construed clearly establishes the principle that payment for the services shall be upon a cost basis and such principle is binding upon both the procuring and requisitioned agency in fixing the charges to be billed and paid."

Further, 57 Comp. Gen. 674 added that:

". . . cost comparisons and billings under section 601 of the Economy Act of 1932 as amended . . . shall not include items of indirect cost which are not

significantly related to costs incurred by the performing agency in executing the requisitioning agency's work"

"If an item of indirect cost does not bear a significant relationship to the service or work performed . . . , it should not be included as an element of actual cost"

The ATSDR annually approves an interagency agreement under which CDC provides "administrative and support services" for ATSDR. The agreement for FY 1997 provided for an estimated cost of \$5 million. The interagency agreement states that ATSDR will reimburse CDC for costs incurred. Additionally, the interagency agreement states the costs are to cover services broadly defined as follows:

"Administrative services supplied to ATSDR will be those routinely supplied to CDC Centers, Institutes, and Offices through the Office of the Director. These include, but are not limited to, administrative services from the CDC Washington Office, Office of Health and Safety, Office of Program Planning and Evaluation, Office of Public Affairs, Management Analysis and Services Office, Information Resources Management Office, Financial Management Office, Human Resources Management Office, and Procurement and Grants Office."

The ATSDR and CDC could not provide documentation that the \$5 million paid to CDC for administrative and support services reflected a reasonable cost for the specific services provided, nor could they provide documentation that these charges were consistent with similar charges to CDC's own programs. As a result, ATSDR has no assurance the Superfund was not overcharged or undercharged for administrative and support services.

Without adequate documentation, we cannot express an opinion on the allowability, allocability, and reasonableness of CDC's charges for administrative and support services. We believe that ATSDR should not allow reimbursement from the Superfund unless charges are adequately justified. Justification for administrative and support services charged by CDC should include such records and reports necessary to ensure that the charges are (1) reasonable for the services actually provided; and (2) consistent with similar charges to CDC's own programs.

We identified this problem in the FY 1994, FY 1995, and FY 1996 audits.

In response to the FY 1994 audit, PHS committed CDC to develop a cost allocation plan to support and document the basis for the administrative and support costs charged to ATSDR. However, our Superfund audits of FY 1995 and FY 1996 showed that CDC had not developed or implemented a cost allocation plan as agreed.

In response to our FY 1995 audit report, CDC contracted with a consultant group to develop a methodology for allocating costs. Currently, CDC is developing a system for allocating administrative costs; however, we can not express an opinion because the system is not complete, and some costs have not been identified.

Recommendations

We recommend that ATSDR:

- either obtain documentation supporting the reasonableness of \$5 million of costs for administrative and support services for FY 1997, or assure that the Superfund is refunded costs that cannot be supported; and
- require documentation supporting all future charges to the Superfund for administrative and support services as a condition for payment. All future interagency agreements should include requirements for such records and reports as are necessary to ensure that charges are reasonable for the services actually provided and that charges for the services were consistent with similar charges to CDC's own programs.

ATSDR Comments

The ATSDR's comments did not directly address our recommendations. The comments stated that CDC initiated a two-phase effort to develop supporting documentation for the distribution of indirect costs across all CDC programs. Phase I of this effort was a comprehensive study of the CDC budget process for the Office of the Director. The CDC initiated Phase II, the cost allocation methodology, in FY 1998.

Site-Specific Costs

The ATSDR has an automated system in place to record costs on a site-specific basis. It also contracts with Cotton & Company, Certified Public Accountants, to analyze recorded costs, develop an indirect cost allocation plan, and determine a rate for the recovery of indirect costs allocable to Superfund sites.

The ATSDR did not ensure that all site-specific costs charged to Superfund were adequately supported or appropriately allocated between sites as required by established procedures. Our review of 25 judgmentally selected sites identified 5 sites where site-specific costs were not supported by adequate documentation or allocated appropriately between sites.

The ATSDR Cost Recovery Manual procedures require all personnel who perform site-specific work to complete cost recovery timesheets as adequate documentation to support travel costs charged to Superfund sites. We found nine instances of costs charged to one site without

supporting cost recovery timesheets as required by ATSDR established procedures. We believe that ATSDR should ensure that personnel complete the cost recovery timesheets as required by established policy.

Additionally, we found eight instances where travel costs were not appropriately allocated between five cost recovery sites. These instances resulted from computation errors and cost allocation to the incorrect site. We believe that ATSDR should ensure that costs are appropriately allocated on a site-specific basis.

We also found three instances where appropriate supporting documentation was not maintained by Cost Recovery Activity for site-specific costs charged to one Superfund site. These three instances related to one site where amended travel vouchers were submitted for costs which had previously been allocated to the site. The Cost Recovery Activity did not receive a copy of the amended voucher for their records; therefore, it could not provide adequate support for the costs charged to the site. We believe that ATSDR should ensure that Cost Recovery Activity receives a copy of all amended travel vouchers as support for the costs charged to each site.

Recommendation

We recommend that ATSDR follow established procedures to ensure that all site-specific costs are adequately supported and appropriately allocated between sites.

ATSDR Comments

The ATSDR stated that it had corrected all of the instances where cost was charged to sites incorrectly. The ATSDR is researching with CDC and GSA a method to correctly charge and ensure that costs based on amended travel vouchers are incorporated in the system.

MINORITY CONTRACTOR UTILIZATION REPORT

The Minority Contractor Utilization Report which ATSDR submitted to the HHS Office of the Secretary and EPA was accurate and submitted timely.

INTERNAL CONTROLS

The ATSDR is responsible for establishing and maintaining internal control systems used in administering Superfund programs and activities. 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 any material irregularities, we noted matters involving ATSDR's internal control structure and its operations that we consider reportable conditions based on the reporting requirements of Government Auditing Standards. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design and 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. These matters are discussed on pages 4 through 11 of this report under the headings: **Allowability, Allocability, and Reasonableness of Claimed Costs; Overhead Costs; and Site Specific Costs.**



DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service
Agency for Toxic Substances
and Disease Registry**Memorandum**

Date **OCT 30 1998**

From Assistant Administrator, ATSDR

Subject **Superfund Financial Activities at the Agency for Toxic Substances and Disease Registry for Fiscal Year 1997 (A-04-98-04220)**

To **Thomas D. Roslewicz**
Deputy Inspector for Audit Services

Thank you for the opportunity to review the Office of Inspector General (OIG) Draft Report, "Superfund Financial Activities at the Agency for Toxic Substances and Disease Registry for Fiscal Year 1997." The Audit found that the Agency for Toxic Substances and Disease Registry (ATSDR) generally administered the fund in accordance with applicable laws and regulations. The auditor noted, however, that the Centers for Disease Control and Prevention (CDC) and ATSDR should: (1) make improvements to ensure that all grantees obtain and submit required independent audit reports; (2) follow established procedures to ensure that all Superfund related grantee findings are resolved; (3) ensure that all Superfund grantees submit required progress and financial reports; (4) follow established procedures to ensure that all personnel services transactions are accurately supported; (5) ensure that agencies with which it has interagency agreements submit the required progress and financial reports; (6) maintain adequate supporting documentation related to its interagency agreement for administrative and support services with CDC; and (7) follow established procedures to ensure that all site specific costs charged to Superfund are adequately supported or appropriately allocated between sites.

The OIG report makes recommendations to address these matters. The following are ATSDR comments regarding the Superfund audit and report recommendations.

OIG Recommendation

We are recommending that ATSDR ensure that: the grantee submits the required audit report on its Superfund expenditures as soon as possible and that CDC utilize established controls to ensure that all Superfund grantees submit the required audit reports in the future.

ATSDR Response

The Single Audit Report for the Minority Health Professions Foundation for the two year period ending September 30, 1996, is dated January 7, 1998. The Office of Inspector (OIG) received the report from the grantee on August 19, 1998, but has not yet issued the report to the Cost Advisory Activity (CAA) for resolution.

The history of the two subject audits, the State of Florida and the National Environmental Health Association (NEHA), is illustrated in the following table:

<u>CIN</u>	<u>Auditee</u>	<u>Type of Findings</u>	<u>Date of OIG Memo</u>	<u>OMB Resolution Deadline</u>	<u>Date of CAA Receipt of OIG Memo</u>	<u>Date of CAA Transmittal to GMB</u>	<u>Date of GMB's 1st Letter to Grantee</u>	<u>Date of GMB's Demand Letter to Grantee</u>	<u>Date of Audit Resolution</u>
A-04-97-48389	Florida	Nonmonetary	07/24/97	01/24/98	07/28/97	07/30/97	04/23/98	09/23/98	N/A
A-08-97-48005	NEHA	Nonmonetary	03/15/97	11/15/97	05/20/97	03/20/97	06/02/97	04/06/98	06/05/98

ATSDR/CDC resolved the NEHA audit on June 5, 1998. The Florida audit has not been resolved because the initial response was incomplete. We are currently awaiting another response.

ATSDR/CDC is required to report the reasons for delays to the OIG when audits are not resolved within six months; however, the OIG has asked ATSDR/CDC not to report on audits that have no monetary findings. Since the Florida and NEHA audits did not contain any monetary findings for us to resolve, the OIG's procedures did not require ATSDR/CDC to report the reasons for the delays.

During the second quarter of FY 1998, ATSDR/CDC assigned a Grants Management Specialist to work full-time for 90 days to concentrate on the backlog of unresolved audits that accumulated between October 1997 and February 1998. Through this effort, ATSDR/CDC reduced the number of unresolved audits more than six months old from 59 on March 1, 1998, to only four (4) on June 1, 1998.

The following OIG statement, which appears in the last paragraph on page 5, is in error: "According to CDC's Procedures for Processing Audit Reports, the Cost Advisory Activity (CAA) prepares a transmittal to the grantee identifying the related audit findings. . . ." As stated in the cited reference document, the CAA prepares a brief transmittal memorandum to the Chief, Grants Management Branch. The Grants Management Branch contacts the auditee/grantee via a letter to request a response. There has not been an increase in the CAA staff size for the last seven years, despite an enormous growth in the audit resolution work-load. We believe the CAA has insufficient resources to carry out its audit resolution duties.

OIG Recommendation

The ATSDR did not ensure that grantees submitted all the required progress and financial status reports, as required by the Notice of Cooperative Agreements. We reviewed 25 awards and found that only 1 submitted all the required reports on a timely basis. The ATSDR should ensure that CDC strengthen controls to ensure compliance with the monitoring requirements and timeliness of required reports.

ATSDR Response

Progress Reports - The frequency of required progress reports varies from quarterly to annually based on program requirements. Quarterly progress reports are due 30 days after the end of the quarter and annual progress reports are due 90 days after the end of the budget period. These requirements are incorporated into the award provided to the grantee. If progress reports are not received by the due date, a notice of delinquency is sent to the grantee. CDC will ensure that, in the future, progress reports are received in a timely manner by notifying grantees prior to due dates of the requirement for a timely submission of progress reports.

Of the 25 awards reviewed, CDC has now received the required progress reports for 24 awards. One (1) grantee is delinquent in providing CDC with the required progress report. The grants office has contacted the grantee regarding the delinquent progress report.

Financial Status Reports (FSR) - FSR's are due 90 days after the end of the budget period. At the time of the review, CDC had received FSR's for 21 of the 25 awards reviewed. CDC has now received the four (4) FSR's that were delinquent at the time of the review. CDC will ensure that, in the future, FSR's are received in a timely manner by notifying grantees prior to the due date of the requirement for a timely submission of financial reports.

OIG Recommendation

We are recommending that ATSDR: (1) take appropriate action to correct all employee leave balances; (2) ensure that timekeepers and supervisors verify the accuracy of time and attendance transactions; (3) establish procedures to require timekeepers to reconcile the timekeeping system to the payroll statements; (4) amend the timekeeping system to allow timekeepers to view employees' current credit hour balance; and (5) develop controls within the timekeeping system to alert timekeepers of negative credit hour balances.

ATSDR Response

1. All Timekeeper/time clerks (TK/TC) were notified at the time of the findings to correct the records that were in error. The ATSDR Timekeeping Liaison (ATL) followed up with a call to each TK/TC to verify all records were corrected. Of the 17 reports that were in error, only one cannot be verified as the employee is no longer with ATSDR, thus we no longer have access to this record.
2. The Supervisors received the Recording and Reporting of Time and Attendance procedure under the Human Resources Management Manual sent out by CDC on 2/10/97. Part IV., B., 1., (d) states that the supervisor is to certify the accuracy of time and attendance of employees including approved credit hours, compensatory time, or overtime worked as

reported by employee on the Report of Credit Hours, Compensatory Time or Overtime Earned/Used or Leave Used form (CDC PF 0.1232). The TK/TCs are instructed as to how to verify the timekeeping accuracy at the CDC/ATSDR timekeeping training. This issue will be reiterated at both the TK/TCs' quarterly meeting and the ATSDR Deputy Directors' monthly meeting.

3. Chapter 19, pages 1-3 of the Guide for Timekeepers states that the TK/TC is to check the leave balances from the automated Leave History against the balances in the leave section of the Earnings & Leave Statement (OS-340) to ensure balances are correct each pay period. This procedure is shown to TK/TCs during their timekeeping training.
4. TK/TCs have been able to view employees' current credit hour balances since November 1996. Unfortunately the Time and Attendance System (TAS) does not update the records immediately after a pay period is completed. The timeframe in which it is updated can vary from one to two pay periods, thus current information may not be available. The ATL has sent the OIG recommendation to amend the timekeeping system to allow TK/TCs to view employees current credit hour balance to the OPS/IRMO Support Help Desk for their follow-up.
5. The ATL has sent the OIG recommendation to develop a control within the timekeeping system that will alert timekeepers of negative credit hour balances to the OPS/IRMO Support Help Desk for their follow-up. The system is already set up to notify supervisors and TK/TCs that the employee is in an advanced annual or sick leave status.

OIG Recommendation

We recommend that ATSDR ensure that all agencies, with which it has reimbursable projects, submit the required financial and progress reports and if necessary, revise the reporting requirements to reflect the current reporting needs.

ATSDR Response

We will ensure that the necessary financial and progress reports required for monitoring activities will be submitted by all agencies. However, some of the reporting requirements indicated in the interagency agreements are not necessary and have been changed from quarterly to annually. The revision in reporting requirements has been reflected in the next fiscal year agreement.

OIG Recommendation

We are recommending that ATSDR either (1) obtain documentation showing the reasonableness of charges for FY 97 administrative and support services from CDC; or (2) assure that the

Superfund is refunded payments for the charges that cannot be supported. We are also recommending that ATSDR not pay the charges in the future years unless supporting documentation for them is provided. The documentation should include all records and reports necessary to ensure that charges are reasonable for the services actually provided, and that charges for the services were consistent with similar charges to CDC's own programs.

ATSDR Response

In FY 1997, CDC initiated a major 2-phase effort to develop supporting documentation for the distribution of indirect costs across all CDC programs including ATSDR. Phase I of this effort was a comprehensive study of the CDC budget process for the Office of the Director. CDC initiated Phase II, the cost allocation methodology, in FY 1998.

OIG Recommendation

We recommend that ATSDR follow established procedures to ensure that all site-specific costs are adequately supported and appropriately allocated between sites.

ATSDR Response

1. The nine (9) instances of travel costs charged to 1 site without supporting cost recovery time sheets represent two (2) former employees of ATSDR. Since these two individuals are no longer employed by ATSDR, it would be inappropriate to create time sheets which cannot be signed by the employees. Although ATSDR is unable to obtain these time sheets, we estimate \$7,700 of unallocated payroll costs to this site.
2. ATSDR has corrected the eight (8) instances of travel costs which were not appropriately allocated between five (5) cost recovery sites.
3. In all three instances where it was noted that the Cost Recovery Activity did not receive a copy of the amended travel voucher for their records, the amounts charged to the Superfund site in excess of that claimed by the traveler on the travel voucher did not represent an amendment to the travel voucher but payments made directly to GSA for vehicles used by the employee for the site related visit. These payments were charged by CDC's financial system against the travel order number and were downloaded into the Cost Recovery System along with the payment to the traveler.

ATSDR will research this issue with CDC and GSA to determine how to obtain supporting documentation for this type of charge to a site-specific activity.

If you should have questions regarding these comments, please contact Ms. Carolyn Russell,
Director, Management Analysis and Services Office, (404) 639-0440.


 Barry L. Johnson, Ph.D.
Assistant Surgeon General