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## Memorandum

Date Deputy Inspector General  
From for Audit Services

Subject Superfund Financial Activities at the National Institute of Environmental Health Sciences for Fiscal Year 1997 (CIN: A-04-98-04221)

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

The attached final report provides you with the results of our audit of the National Institute of Environmental Sciences (NIEHS) Superfund financial activities for Fiscal Year 1997. The audit showed that NIEHS generally administered the fund according to Superfund legislation.

As the report contains no recommendations, no response is necessary. However, if you have any questions, please contact me or have your staff contact Joseph J. Green, Assistant Inspector General for Public Health Service Audits, at (301) 443-3582.

We appreciate the cooperation given us in this audit. To facilitate identification, please refer to the Common Identification Number A-04-98-04221 in all correspondence relating to this report.

  
Thomas D. Roslewicz

Attachment

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**SUPERFUND FINANCIAL ACTIVITIES  
AT THE NATIONAL INSTITUTE OF  
ENVIRONMENTAL HEALTH SCIENCES  
FOR FISCAL YEAR 1997**



**JUNE GIBBS BROWN**  
Inspector General

**NOVEMBER 1998**  
A-04-98-04221

## 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) 1997. We conducted the audit to comply with provisions of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (Act). The Act requires the Inspector General of a Federal organization with Superfund responsibilities to audit all uses of the Superfund.

The NIEHS receives funds through an interagency agreement (IAG) with the Environmental Protection Agency (EPA) to carry out health-related and other functions mandated by Superfund legislation. During the period October 1, 1996 through September 30, 1997, NIEHS' obligations of Superfund resources totaled about \$53.9 million and disbursements totaled about \$60.5 million of funds obligated during and prior to that year.

Our audit showed that NIEHS generally administered the fund according to the Superfund legislation.

## BACKGROUND

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

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

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

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

Funds are obligated by NIEHS when it agrees to fund activities related to the Act. Funds are disbursed by NIEHS after the activities have been completed. During the period October 1, 1996 through September 30, 1997, NIEHS obligated about \$53.9 million and disbursed about

\$60.5 million in Superfund resources. Of the \$60.5 million of disbursements, \$2.7 million was related to FY 1997 funds. The remaining \$57.8 million was related to prior periods.

### **OBJECTIVES, SCOPE AND METHODOLOGY**

The objectives of our audit were to determine:

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

The NIH provided a financial transactions listing of Superfund obligations and disbursements recorded during the period October 1, 1996 through September 30, 1997. This listing included Superfund grant obligations of \$51,287,700 and nongrant obligations of \$2,661,225. The \$51,287,700 of grant obligations consisted of \$51,296,589 for FY 1997 funds and a deobligation of \$8,889 of prior year funds. In addition, the listing included grant disbursements of \$57,734,044 and nongrant disbursements of \$2,764,275.

The NIEHS entered into agreements with universities, unions, and other nonprofit organizations to carry out its responsibilities under the Act. We verified the \$51,296,589 of obligations to the grant award documents for the 38 research, training, and scientific evaluation grants. The scope of our audit did not include auditing disbursements by the grantees. These grants are subject to independent audits under 45 Code of Federal Regulations (C.F.R.) 74.26.

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

We judgmentally selected five grant files and performed a limited review of monitoring activities conducted by NIEHS.

We reviewed a stratified random sample of 100 nongrant transactions. This sample consisted of 30 personnel and 70 "other" disbursement transactions. The 30 personnel disbursement transactions that we reviewed totaled \$63,757 from the universe of 484 personnel transactions totaling \$519,868. The 70 "other" disbursement transactions that we reviewed totaled \$33,665 from the universe of 1,135 "other" transactions totaling \$2,128,638.

We also reviewed a judgmental sample of 20 unliquidated nongrant obligations. These 20 transactions totaled \$14,633 from a universe of \$1,667,566 in unliquidated obligations. The associated disbursements for these transactions will be subject to review in future Superfund audits.

We determined that NIEHS had a system for recording costs for specific sites.

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

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

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

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

We reviewed the FY 1996 report on Superfund financial activities (Common Identification Number A-04-97-04598) and determined that there were no findings; therefore, follow-up was not necessary.

We conducted our audit in accordance with generally accepted government auditing standards applicable to financial-related audits. Our review was performed at NIEHS in Research Triangle Park, North Carolina, and at our Raleigh, North Carolina Field Office during the period March 1998 through September 1998.

## **RESULTS OF AUDIT**

Our audit showed that NIEHS:

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

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

### **ALLOWABILITY OF COSTS**

The Superfund transactions included in our review for the period October 1, 1996 through September 30, 1997 relate to FY 1992 through FY 1997 funds. The financial transactions were generally properly and accurately recorded. Supporting documentation showed that obligations were incurred and disbursements were made for Superfund activities. We found no indication of payments or uses of the Superfund monies other than those shown in NIEHS' records.

### **OVERHEAD**

Our review showed that NIEHS did not charge overhead in FY 1997. According to NIH and NIEHS, the overhead amount that would be recovered would be less than the cost of the additional time to account for overhead and the cost of modifications to their accounting system.

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

### **COSTS RECORDED ON A SITE-SPECIFIC BASIS**

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

### **MINORITY CONTRACTORS UTILIZATION REPORT**

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

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

### **INTERNAL CONTROLS**

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

Because of inherent limitations in any system of internal accounting controls, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate. We did not identify any internal control weaknesses that we consider to be reportable conditions.