



U.S. ENVIRONMENTAL PROTECTION AGENCY
OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Audit Report

EPA Has Improved Efforts to Reduce Unliquidated Obligations in Superfund Cooperative Agreements, But a Uniform Policy Is Needed

Report No. 09-P-0241

September 22, 2009

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Abbreviations

EPA	U.S. Environmental Protection Agency
FY	Fiscal Year
OIG	Office of Inspector General



At a Glance

Catalyst for Improving the Environment

Why We Did This Review

The purpose of this audit was to determine whether the U.S. Environmental Protection Agency (EPA) has adequately monitored obligations on Superfund Cooperative Agreements. Our objectives were to determine the status of obligations under Superfund Cooperative Agreements for selected States, and the amount of unliquidated obligations for these States that could potentially be deobligated.

Background

A Cooperative Agreement is a legally binding obligating document that provides funding to a State to carry out or assist with Superfund removal and/or remedial activities. Timely review and deobligation of unneeded funds allow these funds to be used on other Superfund priorities.

For further information, contact our Office of Congressional, Public Affairs and Management at (202) 566-2391.

To view the full report, click on the following link:
www.epa.gov/oig/reports/2009/20090922-09-P-0241.pdf

EPA Has Improved Efforts to Reduce Unliquidated Obligations in Superfund Cooperative Agreements, But a Uniform Policy Is Needed

What We Found

The regions audited (Regions 3, 5, and 8) have implemented effective procedures to adequately monitor the status of obligations under Superfund Cooperative Agreements. Those procedures should be used by all regions annually to identify funds available for deobligation. Also, the Agency has reduced the total amount of open obligations under Superfund Cooperative Agreements from December 4, 2006, to December 2, 2008.

We identified \$331,802 of open obligations in Region 3 that needed to be deobligated. During our audit, the Agency deobligated \$330,370 of that amount. The Agency deobligated \$1,432 less than the amount originally identified for one agreement because of a final drawdown; that agreement is now closed. The unliquidated obligations on the remaining agreements for the States reviewed are necessary for continuing project work. Because the practices for the regions reviewed have been effective in monitoring obligations and identifying amounts available for deobligation, we believe an Agency-wide uniform policy to review unliquidated obligations under Superfund Cooperative Agreements would be beneficial.

What We Recommended

We have identified several best practices used by Regions 3, 5 and 8, such as (1) requiring that States submit detailed reports on the status of each Superfund site twice a year, (2) requiring that budget officers solicit information from project officers and other staff twice a year to identify potential funds for deobligations, and (3) performing a deobligation exercise twice a year for Superfund Cooperative Agreements. We recommend that EPA's Director, Office of Grants and Debarment, incorporate these best practices into a uniform policy for reviewing unliquidated obligations under Superfund Cooperative Agreements in all regions. The Agency agreed to develop a uniform policy, and we consider its response acceptable.



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

OFFICE OF
INSPECTOR GENERAL

September 22, 2009

MEMORANDUM

SUBJECT: EPA Has Improved Efforts to Reduce Unliquidated Obligations in Superfund Cooperative Agreements, But a Uniform Policy Is Needed
Report No. 09-P-0241

FROM: Paul C. Curtis 
Director, Financial Statement Audits

TO: Howard Corcoran
Director
Office of Grants and Debarment

Mathy Stanislaus
Assistant Administrator
Office of Solid Waste and Emergency Response

This is a report conducted by the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA) on unliquidated obligations under Superfund Cooperative Agreements. This report represents the opinion of the OIG and does not necessarily represent the final EPA position. Final determination on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

The estimated cost of this project – calculated by multiplying the project's staff days by the applicable daily full cost billing rates in effect at the time – is \$260,513.

Action Required

In accordance with EPA Manual 2750, you are required to provide a written response to this report within 90 calendar days. You should include a formal corrective action plan for agreed upon actions, including milestone dates. We have no objection to the further release of this report to the public. This report will be available at <http://www.epa.gov/oig>.

If you or your staff have any questions regarding this report, please contact me at (202) 566-2523 or curtis.paul@epa.gov, or Meg Hiatt at (513) 487-2366 or hiatt.margaret@epa.gov.

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Purpose

The purpose of this audit was to determine whether the U.S. Environmental Protection Agency (EPA) has adequately monitored obligations on Superfund Cooperative Agreements. Our objectives were to determine the status of obligations under Superfund Cooperative Agreements for selected States, and the amount of unliquidated obligations for these States that could potentially be deobligated.

Background

Superfund response actions may be managed by either EPA or a State. A Cooperative Agreement is a legally binding obligating document that: provides funding to a State to carry out or assist with Superfund removal and/or remedial activities, documents State and EPA responsibilities and cost share requirements, and obtains State assurances. A Cooperative Agreement is used when the State manages the response action and EPA provides assistance to the State. Several EPA offices are involved in the administration and financial management of the Cooperative Agreements:

- Grants Management Offices are the Headquarters and regional units principally responsible for all business management aspects associated with the review and negotiation of applications and the award and administration of funded projects through audit resolution and final close-out.
- The Office of Grants and Debarment serves as the National Program Manager for administrative grants management, and is responsible for assistance regulations, policy, and guidance; and for assistance-related training. This Office also evaluates and provides feedback on annual programmatic Post-Award Monitoring Plans and required Close-out Strategies within 45 days of receipt. The Grants and Interagency Agreements Management Division within the Office of Grants and Debarment is the Grants Management Office responsible for administrative management from award to close-out for all assistance programs administered by EPA Headquarters. The National Policy, Training and Compliance Division provides advice and oversight to regional Grants Management Offices for regionally-administered assistance programs.
- The Las Vegas Finance Center is responsible for cooperative agreement payments and financial close-out of these agreements. The Headquarters or regional program office is principally responsible for managing the technical/programmatic aspects of a program.
- EPA Project Officers are responsible for completing programmatic baseline monitoring for all active awards and assigned programmatic advanced monitoring activities. Project Officers complete technical close-out of awards and certify that all programmatic terms and conditions are met. Project Officers assist and respond to the Grants Management Office, Grant Specialist, and Finance Center in requests for assistance in monitoring, close-out, and overall grants management. Project Officers are responsible for forwarding any administrative or financial reports and requests to the appropriate office and maintaining appropriate file documentation.

- EPA Grant Specialists are responsible for completing administrative baseline monitoring for all active awards and assigned administrative advanced monitoring activities, including conducting the review, preparing the report, and resolving findings. The Grants Specialists complete administrative close-out of awards. The Grants Specialists assist and respond to the Project Officer, program office, and Finance Center in requests for assistance in monitoring, close-out and overall grants management. The Grants Specialists are responsible for forwarding any technical or financial reports and requests to the appropriate office and maintaining appropriate file documentation.

EPA's Policy on Compliance, Review and Monitoring of Grants and Cooperative Agreements establishes Agency standards for the oversight, monitoring, and close-out of assistance agreements. The policy states EPA officials monitor programmatic and administrative components of the agreements, including determining whether expended and remaining funds are reasonable.

Noteworthy Achievements

- Regions 3, 5, and 8 have implemented procedures to effectively and adequately monitor the status of obligations under Superfund Cooperative Agreements and identify amounts available for deobligation.
- Region 3 program officials perform at least three reviews of the unliquidated obligations. They review the unliquidated obligations when: (1) the Office of Solid Waste and Emergency Response's Office of Superfund Remediation and Technology Innovation requires them, (2) they receive the annual report from the Grants and Interagency Agreements Management Division, and (3) they receive the unliquidated obligations report from Office of the Chief Financial Officer. The program office holds quarterly meetings with the States and also works with the Office of Solid Waste and Emergency Response and the Office of the Chief Financial Officer to identify potential deobligations annually. During Fiscal Year (FY) 2009, Region 3 deobligated \$1,094,301 under Superfund Cooperative Agreements.
- Region 5 program officials require States to submit detailed reports on the status of each Superfund site twice a year. The Region 5 Budget Coordinator solicits information from Project Officers and other personnel to identify potential funds for deobligation. During FY 2009, Region 5 deobligated \$706,641 under Superfund Cooperative Agreements.
- Region 8's Superfund Remedial Branch performs a program support deobligation exercise once a year for all open obligations. This review focuses on agreements 3 or more years old. The Region obtains information from the Response Program Managers to determine what obligations should be deobligated or recertified. The Region also performs an outstanding obligation exercise on open obligations for each assistance agreement by site twice a year to determine what funds are necessary. During FY 2009, Region 8 deobligated \$219,249 under Superfund Cooperative Agreements.

- The Agency has reduced the overall total amount of open obligations under Superfund Cooperative Agreements. Based on information from the Grants Information Control System, EPA reduced open obligations under Superfund Cooperative Agreements from approximately \$124 million as of December 4, 2006, to \$92 million as of December 2, 2008.

Scope and Methodology

We conducted the audit in accordance with generally accepted government auditing standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis of our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

We selected 13 Superfund Cooperative Agreements with the oldest award dates and largest amount of unliquidated obligations on agreements with Delaware, Illinois, and Colorado. We selected those States based on analyzing which States had the largest amount of total unliquidated obligations and agreements with least activity (funds expended). We excluded New York and New Jersey because those States had been audited in the last 4 years (see Table 3 for prior reviews). The sample included Superfund Cooperative Agreements with \$24 million in unliquidated obligations as of February 2, 2009. We interviewed State officials in Delaware, Illinois, and Colorado and EPA program officials from Superfund divisions in Region 3 (covering Delaware), Region 5 (covering Illinois), and Region 8 (covering Colorado). We also reviewed project files obtained from EPA program officials and State officials. We performed the audit from January 28, 2009, to August 12, 2009.

Appendix A contains further details on our scope and methodology.

Results of Review

Overall, we found that Regions 3, 5, and 8 have implemented procedures to effectively and adequately monitor the status of obligations under Superfund Cooperative Agreements and identify amounts available for deobligation. Because these regions' practices have been effective in monitoring obligations and identifying amounts available for deobligation, we believe an Agency-wide uniform policy to review unliquidated obligations under Superfund Cooperative Agreements would be beneficial. Those procedures should be used by all regions annually to identify funds available for deobligation.

Based on our review of the 13 Superfund Cooperative Agreements in Delaware, Illinois, and Colorado, we identified \$236,802 for Delaware that could be deobligated. EPA deobligated an additional \$95,000 on another three agreements with Delaware that were not part of our sample, bringing the total that could be deobligated to \$331,802. The remaining unliquidated obligations in the sample for all three States are necessary for continuing project work. Table 1 provides a summary for the 13 sampled agreements. A discussion of what we found for each State follows the table.

Table 1: Sampled Superfund Cooperative Agreements

Superfund Cooperative Agreement Number	Location	Obligation Amount	Unliquidated Obligation Amount as of 02/02/09	Amounts Identified for Deobligation as of 02/27/09
V00343201	Delaware	\$246,287	\$94,576	\$93,802
0000392101	Delaware	94,726	23,155	10,000
0000392501	Delaware	94,726	74,592	65,000
0099325501	Delaware	97,200	48,030	38,000
0099317001	Delaware	94,625	48,360	30,000
V96582701	Illinois	2,762,870	635,112	0
V96565101	Illinois	4,000,000	2,728,691	0
V96548001	Illinois	18,200,000	9,604,422	0
V96544301	Illinois	984,745	410,531	0
V998610010	Colorado	6,701,329	238,934	0
V97810301	Colorado	8,732,248	829,187	0
V998608010	Colorado	12,648,010	2,369,353	0
V97814001	Colorado	9,906,396	7,071,071	0
Total		\$64,563,162	\$24,176,014	\$236,802

Source: OIG analysis

Delaware – \$331,802 Identified for Deobligation

We identified \$331,802 of open obligations under Superfund Cooperative Agreements that could be deobligated. That amount consists of \$236,802 from the five Delaware Superfund Cooperative Agreements we examined plus \$95,000 that Region 3 and the Delaware Department of Natural Resources and Environmental Conservation decided to deobligate from three other Cooperative Agreements (99367701, V98367501, and V98375801) based on our review. The five agreements we examined were awarded between 1989 and 1995 and had project end dates in FY 2009. Region 3 and Delaware initiated deobligating these funds during our review.

EPA Order 5700.6, 5.1.3 states: “In programmatic baseline monitoring, areas to be reviewed may include: receipt of progress reports, identifying areas of concern cited in the progress reports, whether expended and remaining funds are reasonable.” According to State officials, the Delaware Department of Natural Resources and Environmental Conservation did not review unliquidated obligations under Superfund Cooperative Agreements to determine whether dollars could be deobligated. As a result, Region 3 could not assess the financial status of the agreements, and funds remained obligated on the Superfund Cooperative Agreements that could have been deobligated and used for other purposes.

Region 3 notified us on July 15, 2009, that \$330,370 of the amount identified for deobligation was deobligated. The Agency deobligated \$1,432 less for one agreement than the amount originally identified because of a final drawdown. That agreement is now closed. Region 3’s procedures for monitoring the status of obligations under Superfund Cooperative Agreements were effective in identifying amounts to deobligate.

Illinois – No Funds Identified for Deobligation

We did not identify any funds as available for deobligation from the four Illinois Superfund Cooperative Agreements examined. The unliquidated obligations for the selected agreements are necessary for continuing project work that could occur due to unanticipated conditions, such as additional contamination and other issues causing delays, based on information provided by Region 5 and the Illinois Environmental Protection Agency. Region 5's procedures for monitoring the status of obligations under Superfund Cooperative Agreements were effective in identifying amounts to deobligate.

Colorado – No Funds Identified for Deobligation

We did not identify any funds as available for deobligation from the four Colorado Superfund Cooperative Agreements examined. The unliquidated obligation amounts are necessary for project work based on information obtained from Region 8 and the Colorado Department of Public Health and Environment. For two agreements (V99860801 and V97814001), the percentage of obligations remaining appeared excessive compared with the percentage of project period expired. However, the unliquidated obligation amounts appear necessary because of identified spending needs for projects, issues causing delays (such as start-up delays and land access), and possible project period extensions. Region 8's procedures for monitoring the status of obligations under Superfund Cooperative Agreements were effective in identifying amounts to deobligate.

Recommendation

1. We have identified several best practices used by Regions 3, 5 and 8, such as (1) requiring that States submit detailed reports on the status of each Superfund site twice a year, (2) requiring that budget officers solicit information from project officers and other staff twice a year to identify potential funds for deobligations, and (3) performing a deobligation exercise twice a year for Superfund Cooperative Agreements. We recommend that the Director, Office of Grants and Debarment, incorporate these best practices into a uniform policy for reviewing unliquidated obligations under Superfund Cooperative Agreements in all regions.

Agency Response and Office of Inspector General Evaluation

Region 3 deobligated \$330,370 in unliquidated obligations as a result of our review. Regarding our recommendation to develop a uniform policy, the Agency responded in an e-mail and agreed to develop a uniform policy, and we consider its response acceptable.

Status of Recommendations and Potential Monetary Benefits

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
1	5	We have identified several best practices used by Regions 3, 5 and 8, such as (1) requiring that States submit detailed reports on the status of each Superfund site twice a year, (2) requiring that budget officers solicit information from project officers and other staff twice a year to identify potential funds for deobligations, and (3) performing a deobligation exercise twice a year for Superfund Cooperative Agreements. We recommend that the Director, Office of Grants and Debarment, incorporate these best practices into a uniform policy for reviewing unliquidated obligations under Superfund Cooperative Agreements in all regions.	O	Director, Office of Grants and Debarment			
-	-	NOTE: Region 3 deobligated \$330,370 in unliquidated obligations as a result of our review.	C	Assistant Administrator, Region 3	7/15/2009	\$330.4	\$330.4

¹ O = recommendation is open with agreed-to corrective actions pending
C = recommendation is closed with all agreed-to actions completed
U = recommendation is undecided with resolution efforts in progress

Appendix A

Details on Scope and Methodology

We reviewed laws and regulations pertaining to Superfund Cooperative Agreements, such as the Comprehensive Environmental Response, Compensation, and Liability Act; Office of Management and Budget Circular A-102, *Grants and Cooperative Agreements with State and Local Governments*; and Title 40 Code of Federal Regulations Part 31, *Grants Management Common Rule*. We reviewed EPA policies and guidance issued by the Office of the Chief Financial Officer, such as Resources Management Directive System 2550D, *Superfund Cooperative Agreements and State Contracts*; and EPA Order 5700.6, *Policy on Compliance Review and Monitoring*.

We obtained a universe from EPA's Grants Information Control System under Catalog of Federal Domestic Assistance Numbers 66.802 (Superfund State Site-Specific Cooperative Agreement) and 66.809 (Superfund State and Indian Tribe Core Program Cooperative Agreements). The universe consisted of 281 Superfund Cooperative Agreements with a total award amount of \$602,035,343 as of December 2, 2008. We also generated a report from EPA's Financial Data Warehouse of open obligations as of December 2, 2008, for Superfund site-specific Cooperative Agreements, and Superfund State and Indian Tribe core program Cooperative Agreements. We combined the financial data included in the Financial Data Warehouse Unliquidated Obligations Inquiry with the award data in the Grants Information Control System. From that combined data, we removed agreements without open obligations. The remaining population consisted of 245 agreements totaling \$92,425,363 in open obligations.

From the remaining population, we selected agreements from Delaware, Illinois, and Colorado with the largest unliquidated obligations or least activity as of December 2, 2008. We later updated the information for the selected states as of February 2, 2009. From the three States, we selected 13 agreements with the oldest award date and largest amount of open obligations. We examined 18 percent of open obligations for Delaware, 96 percent for Illinois, and 69 percent for Colorado from our population. See Table 2 for details.

Table 2: Superfund Cooperative Agreements for States Reviewed

State	Population as of 02/02/09			Agreements Audited as of 02/02/09		
	No.	Award Amount	Open Obligations	No.	Award Amount	Open Obligations
Delaware	13	\$7,474,983	\$1,585,075	5	\$627,564	\$288,713
Illinois	7	28,560,642	13,903,010	4	25,947,615	13,378,756
Colorado	14	67,804,478	15,237,041	4	37,987,983	10,508,545
Total	34	\$103,840,103	\$30,725,126	13	\$64,563,162	\$24,176,014

Source: OIG analysis

We developed a questionnaire to use in contacting EPA Project Officers and State officials. The objectives of our questionnaire were to determine the status of obligations under Superfund Cooperative Agreements and the amounts under the agreements that could potentially be deobligated and applied to other purposes. We conducted interviews with EPA program officials from Superfund divisions in Regions 3, 5, and 8. We also interviewed State officials at the

Delaware Department of Natural Resources and Environmental Conservation, Illinois Environmental Protection Agency, and Colorado Department of Public Health and Environment. We performed the audit from January 28, 2009, to August 12, 2009.

Prior Reviews

We researched prior EPA OIG and Government Accountability Office reports related to Superfund Cooperative Agreements. We noted seven pertinent EPA OIG reports, as listed in Table 3:

Table 3: Prior EPA OIG Reports Related to Superfund Cooperative Agreements

Report No.	Title	Date
2004-4-00015	New Mexico Environment Department Costs Claimed Under Cooperative Agreement No. V986338-01	March 31, 2004
2004-4-00016	Idaho Superfund Credit Claim Under EPA Cooperative Agreement V990431-01	June 2, 2004
2006-P-00013	EPA Can Better Manage Superfund Resources	February 28, 2006
2007-2-00003	Information Concerning Superfund Cooperative Agreements with New York and New Jersey	October 30, 2006
2005-4-00099	California Department of Toxics and Substances Control Reported Outlays under Cooperative Agreement V99925204	September 8, 2005
08-2-0099	Follow-up on Information Concerning Superfund Cooperative Agreements with New York and New Jersey	March 4, 2008
09-1-0026	Audit of EPA's Fiscal 2008 and 2007 Consolidated Financial Statements	November 14, 2008

Source: OIG analysis

Internal Control Structure

In planning and performing our audit, we reviewed management controls related to our audit objectives. We examined EPA's FY 2008 Federal Managers' Financial Integrity Act Annual Assurance Letters issued by the Regional Administrators and Assistant Administrators for the various EPA program offices to identify any weaknesses pertaining to the unliquidated obligations under Superfund Cooperative Agreements. In addition, we examined EPA's Office of Management and Budget Circular A-123 review of internal controls to identify any weaknesses related to unliquidated obligations under Superfund Cooperative Agreements. EPA identified no material weaknesses in its Circular A-123 reviews related to Superfund Cooperative Agreements. We did not review the internal controls over EPA's Financial Data Warehouse or the Grants Information Control System from which we obtained data reports, but relied on the review conducted during the audit of EPA's FY 2008 financial statements. That work concluded that the application controls for these systems could be relied on to produce accurate data.

Appendix B***Distribution***

Office of the Administrator
Assistant Administrator, Office of Administration and Resources Management
Assistant Administrator, Office of Solid Waste and Emergency Response
Acting Regional Administrator, Region 3
Acting Regional Administrator, Region 5
Acting Regional Administrator, Region 8
Chief Financial Officer
Principal Deputy Assistant Administrator, Office of Administration and Resources Management
Director, Office of Grants and Debarment
Deputy Director, Office of Grants and Debarment
Director, Office of Superfund Remediation and Technology Innovation
Chief, Contracts Management Branch, Office of Superfund Remediation and
Technology Innovation
General Counsel
Agency Follow-up Official (the CFO)
Agency Follow-up Coordinator
Associate Administrator for Congressional and Intergovernmental Relations
Associate Administrator for Public Affairs
Audit Follow-up Coordinator, Office of Administration and Resources Management
Audit Follow-up Coordinator, Office of the Chief Financial Officer
Audit Follow-up Coordinator, Office of Solid Waste and Emergency Response
Audit Follow-up Coordinator, Office of Grants and Debarment
Audit Follow-up Coordinator, Region 3
Audit Follow-up Coordinator, Region 5
Audit Follow-up Coordinator, Region 8
Acting Inspector General