



Office of Inspector General

Catalyst for Improving the Environment

OIG Response to Congressional Request on Superfund Administrative Costs

Briefing Report No. 2004-S-00004

September 15, 2004



Overview

We performed this evaluation in response to a congressional request specified in the conference report that accompanied H.R. 2673 (Consolidated Appropriations Act 2004). The EPA Office of Inspector General (OIG) was asked to evaluate Superfund expenditures and options to increase resources directed to extramural cleanup while minimizing administrative costs. Our work under this request is ongoing, and we plan to complete our work in January 2005. This briefing reports on OIG work completed to date, including Superfund expenditures between 1999 and 2003, and the effectiveness of EPA efforts to determine, allocate, and optimize Superfund administrative expenditures.

We requested EPA to review the accuracy of our facts in this briefing, and we incorporated their comments when appropriate. We will include fuller coverage of these issues when we complete our final report.

If you have any questions or need further assistance regarding this report, please contact the Office of Congressional and Public Liaison, at (202) 566-2391.

Nikki L. Tinsley
Nikki L. Tinsley
Inspector General



Purpose

- Questions answered in this report:
 - What are headquarters and regional Superfund expenditures for the last 5 years (FY 1999 to 2003)?
 - How effective are the processes and criteria for determining, allocating, and optimizing regional and headquarters' administrative and support resources?
- Questions to be answered by January 2005:
 - How effective are the processes and criteria for allocating Superfund program dollars to program needs?
 - How effective are EPA's procedures for integrating efficiency and effectiveness information into the Superfund program?



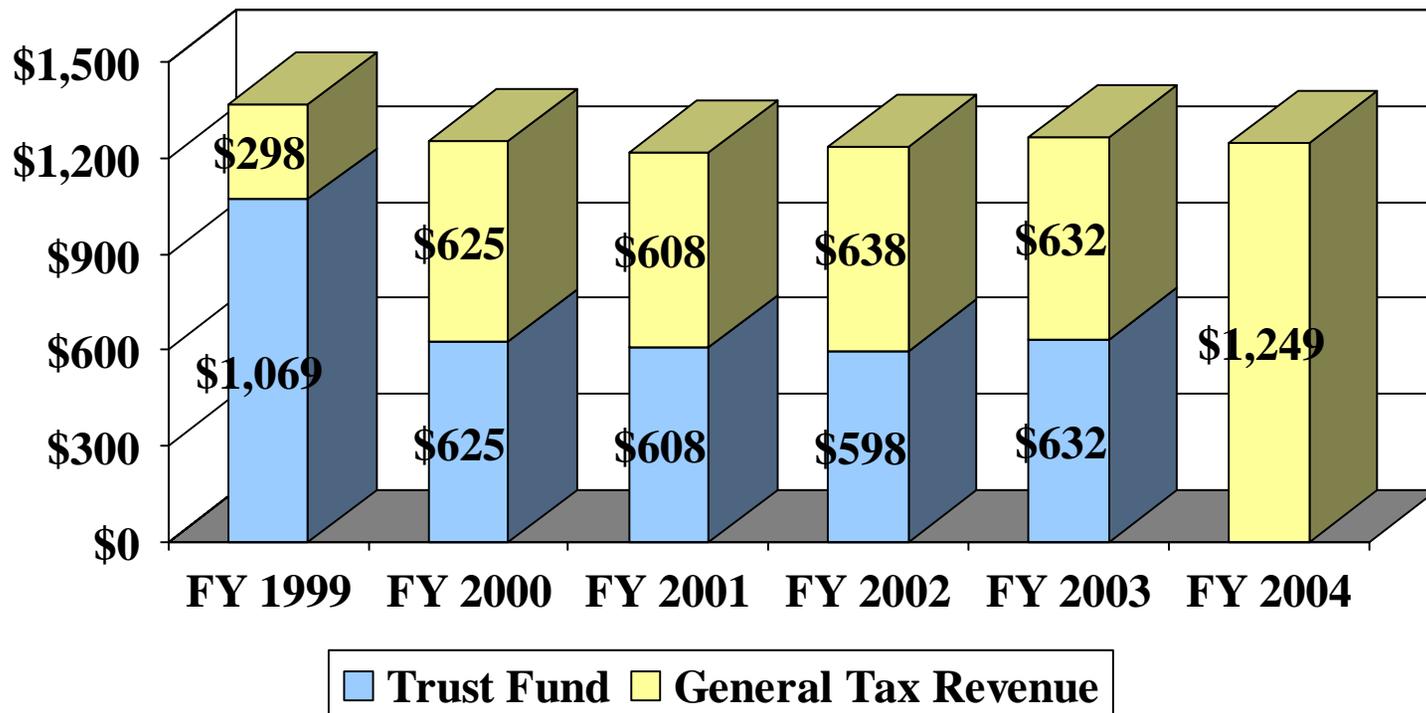
Background

- 1,518 sites have been cleaned up by the Superfund program since 1980 or are being cleaned up.
- Although money remains and continues to be appropriated for Superfund, there has been a decline in Superfund appropriations.
- Superfund's Trust Fund has declined so much that, in 2004, all Superfund appropriations were financed from general tax revenue.



Superfund Appropriations Fiscal 1999 to 2004

Constant 2003 dollars
(millions)



Excludes allocations for the Agency for Toxic Substances and Disease Registry, the National Institute of Environmental Health Sciences, and Brownfields.



Previous Studies Indicated Superfund Improvements Needed

- Recent Superfund studies stated:
 - Program is not ramping down.¹
 - EPA needs to improve program information, improve coordination, and spend resources more wisely.²
 - Program efficiency can be improved.³
- EPA internal 120-day study made over 100 recommendations to improve program.

¹“*Superfund’s Future: What Will It Cost*,” Resources for the Future, 2001.

² The National Advisory Council for Environmental Policy and Technology, Superfund Subcommittee Report, 2004.

³ “*Superfund: Building on the Past, Looking to the Future*,” EPA, 2004.



Question 1

What are headquarters and regional Superfund expenditures for the last 5 years?



Question 1: Scope and Methodology

- Identified FY 1999-2003 administrative and programmatic expenditures by region and headquarters office.
- Extracted expenditure data from EPA's Integrated Financial Management System (IFMS) and adjusted to constant 2003 dollars using Gross Domestic Product Chained-Price Index.
- Due to time constraints, used Agency's definition and coding of administrative and programmatic expenditures, as defined by policy.
- Obtained full-time equivalent personnel (FTE) usage data from EPA's Combined Payroll Accounting Redistribution System (CPARS).
- Excluded from our review the Agency for Toxic Substances and Disease Registry (ATSDR), the National Institute of Environmental Health Sciences (NIEHS), and EPA OIG Superfund expenditures. Also excluded EPA's Office of Research and Development (ORD) and OIG FTE data.
- Obtained additional information from the Agency's audited financial statements, interviews with and documentation from Agency officials, survey of personnel activities in two regions, EPA's internal "120-day" study, and National Advisory Council for Environmental Policy and Technology's Superfund Subcommittee Final Report.
- Generally complied with *Government Auditing Standards*. However, there were significant limitations.
 - IFMS was the primary system upon which we relied, and reports have indicated weak IFMS controls.
 - Due to time constraints, we did not test internal controls.
 - We relied on data gathered by third parties, such as Resources for the Future, but did not test the data they used to reach their conclusions.



Overall Superfund Expenditures Declining

- Over past 5 years, EPA's inflation-adjusted Superfund expenditures declined about 11%, from \$1.71 billion in 1999 to about \$1.52 billion in 2003.^{1,2}
- Superfund FTEs declined 7% during the same time period, from 3,330 in 1999 to 3,088 in 2003.³
- On average, about 75% of total expenditures and 80% of FTEs were in EPA regions.⁴
- EPA's Superfund expenditures excluded Superfund allocable costs absorbed by the Environmental and Program Management (EPM) appropriation, Superfund expenditures made by other Federal agencies, or those directly made by responsible parties.

1 - Excludes OIG expenditures.

2 - Throughout this presentation, total expenditures include those of ORD. Expenditures categorized as programmatic and administrative do not include ORD due to time constraints.

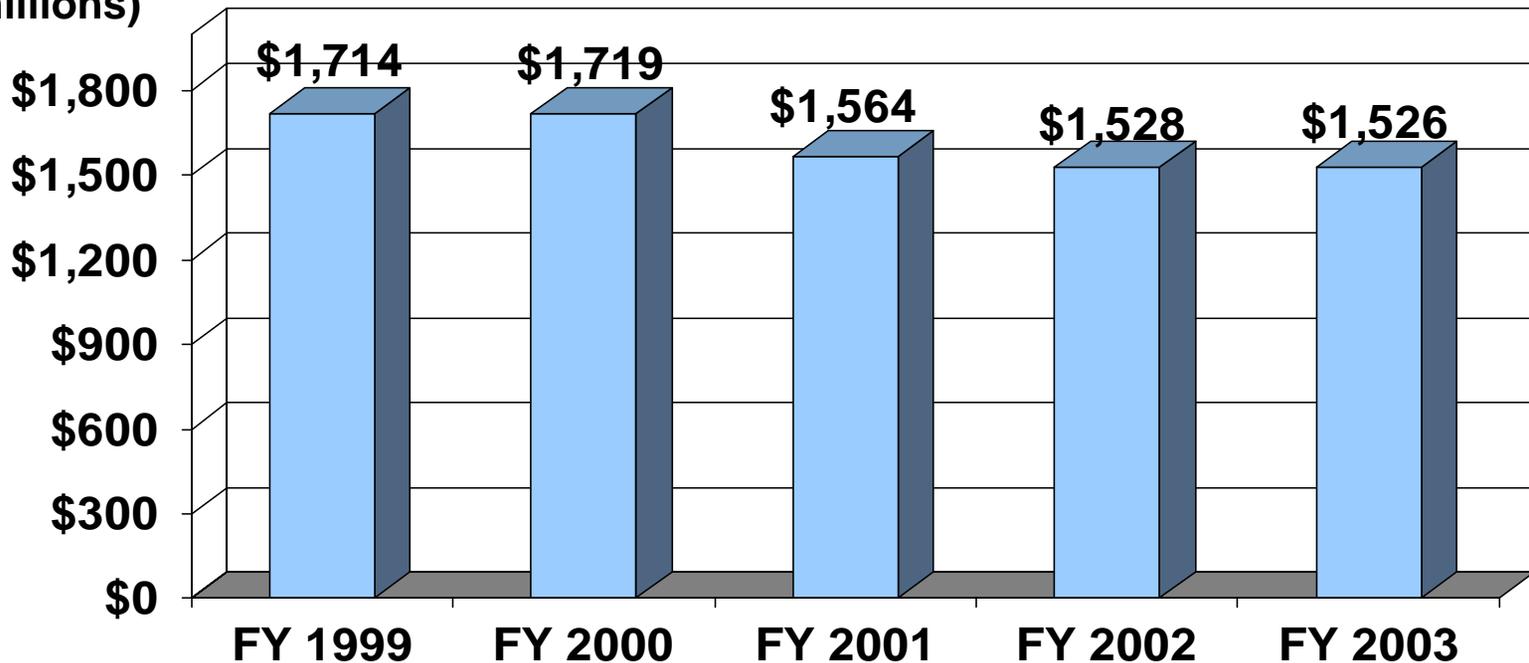
3 - Excludes OIG and ORD FTE.

4 - Excludes OIG expenditures, OIG and ORD FTE. Percentages are averages for FY 1999 to 2003.



Superfund Expenditures: Overall Expenditures Declining

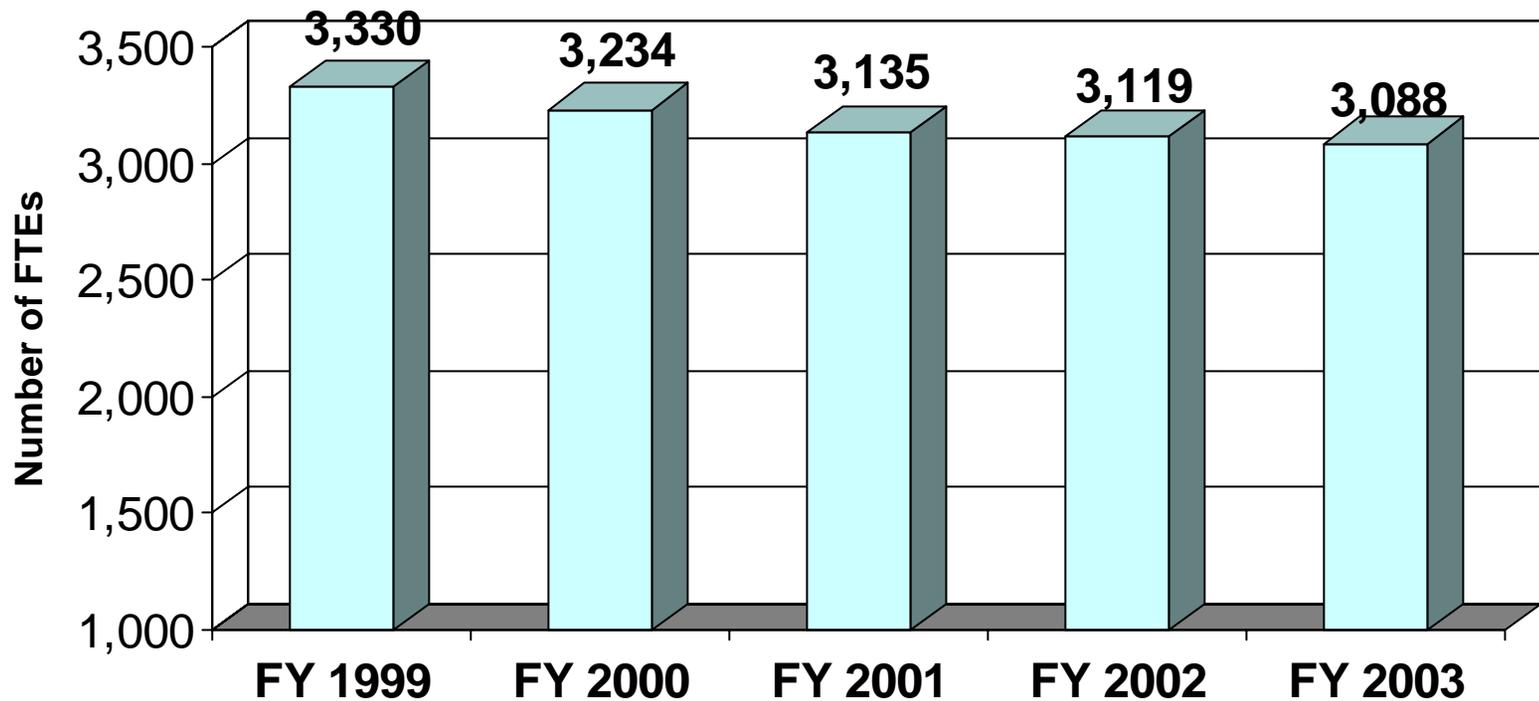
**Constant 2003 dollars
(millions)**



Excludes OIG expenditures.



Superfund Expenditures: Superfund FTEs Declining



Excludes OIG & ORD FTE.



Superfund Expenditures: Administrative Expenditures Increased While Programmatic Expenditures Decreased

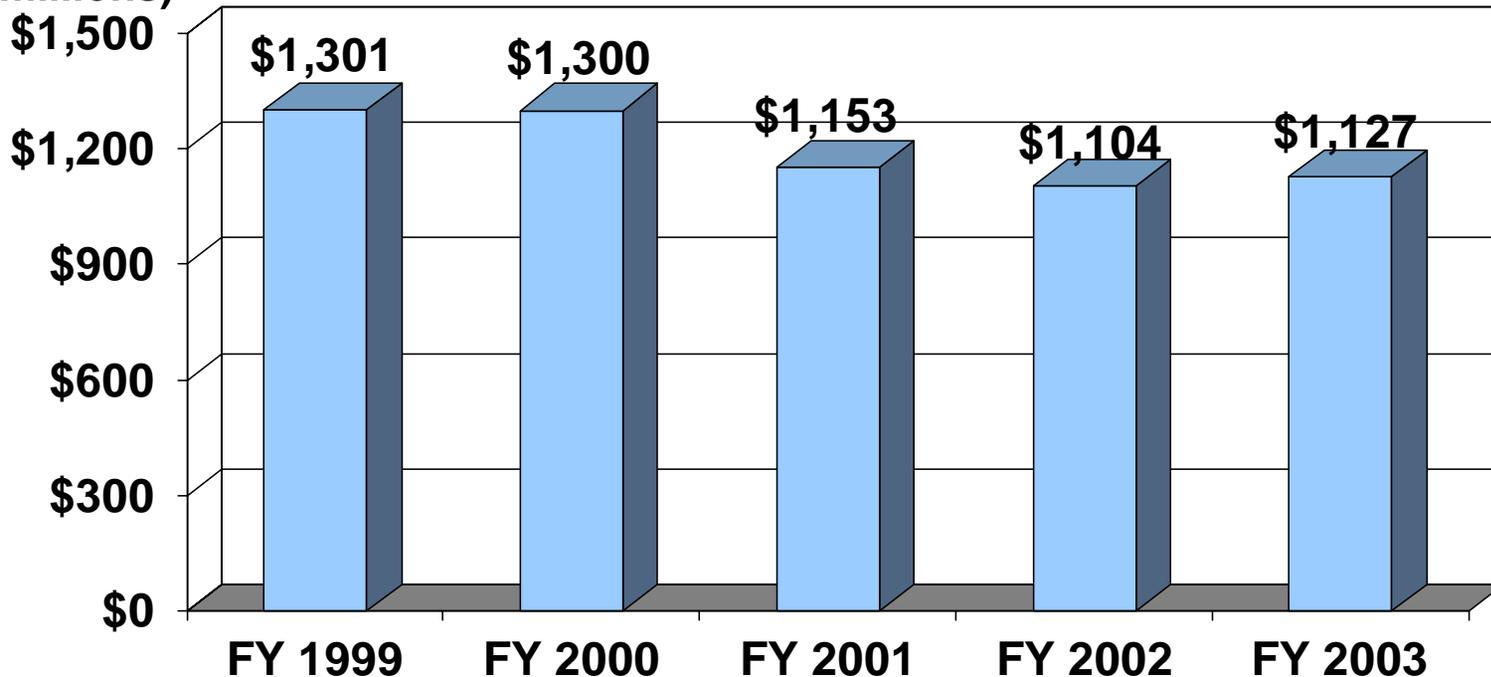
- Superfund expenditures averaged 75% programmatic and 25% administrative from FY 1999 to FY 2003.
- Administrative expenditures increased \$36.8 million while programmatic expenditures decreased about \$174 million.
- Personnel-related expenditures (compensation and benefits) accounted for nearly 80% of total known administrative expenditures over the 5 years.
- EPA indicated personnel costs are rising and are funded, to some degree, by reductions in program resources. Much of the increases are attributable to personnel costs, such as cost of living allowances.

Expenditures exclude OIG. Due to time constraints, we could not verify the categorization of ORD programmatic and administrative expenditures. Uncategorized expenditures were also excluded.



Superfund Expenditures: Superfund Programmatic Expenditures Declining

Constant 2003 dollars
(millions)

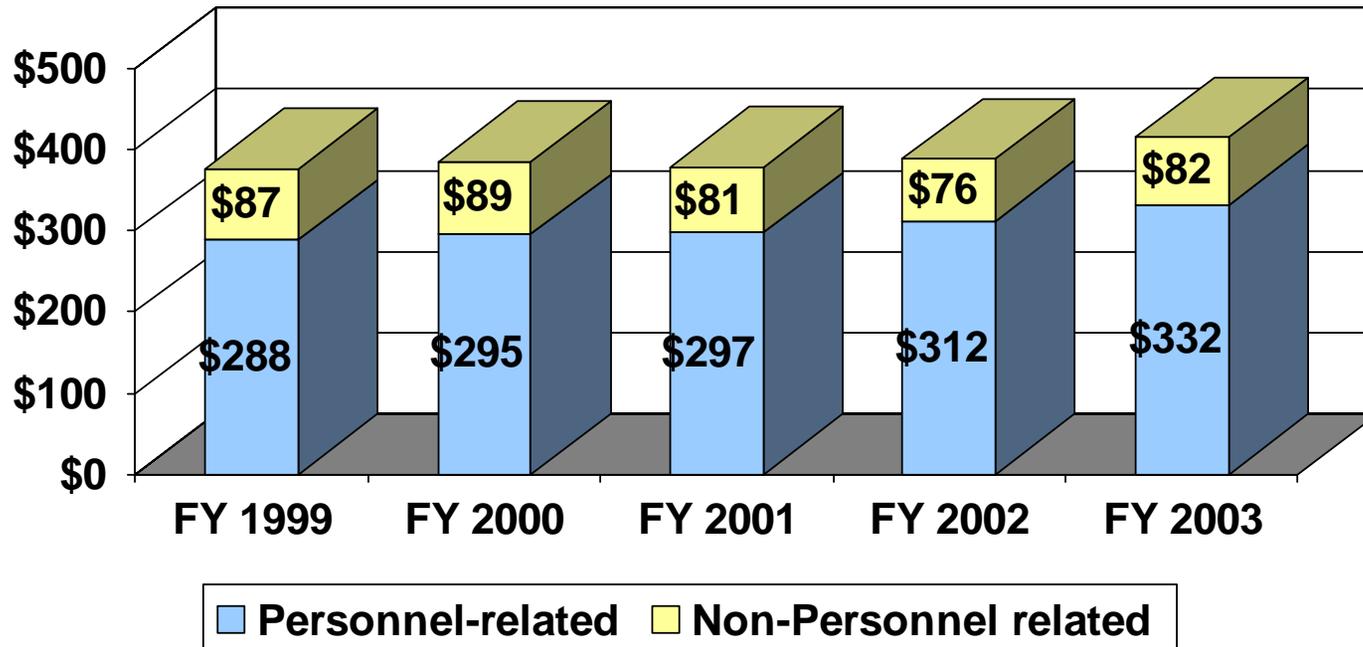


Expenditures exclude ORD and OIG.
Uncategorized expenditures were also excluded.



Superfund Admin. Expenditures: Personnel-related Costs Increasing, Other Known Costs Decreasing

Constant 2003 dollars
(millions)



Expenditures exclude ORD and OIG.
Uncategorized expenditures were also excluded.



Superfund Admin. Expenditures: Personnel a Large Component of Known Costs

- Regions account for about 78% of personnel costs.
- The program office (Office of Solid Waste and Emergency Response, or OSWER) and the Office of the Chief Financial Officer (OCFO) maintain that some personnel costs should be categorized as programmatic.
- IFMS and the payroll accounting system do not provide detailed data on personnel-related activities.
- Our survey of two regions indicated personnel activities include:
 - Remedial project management
 - Contract management
 - Legal support
 - Grant management
 - Technical assistance
 - Information system services

Expenditures exclude ORD and OIG.
Uncategorized expenditures were also excluded.



Superfund Admin. Expenditures: Non-Personnel Costs

- After personnel, facility costs (rent, utilities, and communications) represent next largest component of known administrative expenditures.
- Contractual services, travel, and equipment account for majority of other known administrative costs.
- Overhead costs, such as utilities, are allocated to the Superfund program based on varying methodologies, but are usually driven by the number of Superfund FTE.

Expenditures exclude ORD and OIG.
Uncategorized expenditures were also excluded.



Limitations Indicate Amount Spent on Administrative and Programmatic Costs Is Underestimated and Cannot Be Fully Determined

- Expenditure data does not include Superfund allocable expenditures absorbed by the EPM Appropriation.
- EPA used \$370 million from its EPM account for Superfund costs during FY 1999 to 2003 (see next slide), but these expenditures were not accounted for or tracked as Superfund expenditures in EPA's financial management system.



EPM Benefits to Superfund

- EPA used the EPM to absorb a portion of Superfund support activity costs and thus keep administrative costs below the Congressional imposed ceiling (management & support function cap), as shown below¹:

| FY 1999 | FY 2000 | FY 2001 | FY 2002 | FY2003 | Total |
|------------|------------|-------------|-------------|------------|-------------|
| \$38.5 mil | \$33.1 mil | \$106.9 mil | \$116.2 mil | \$75.6 mil | \$370.3 mil |

- Congress divides Superfund appropriation funding into function caps allocated organizationally:

| | |
|--|--|
| Response function cap | OSWER and OAR (Office of Air and Radiation) |
| Enforcement function cap | OECA (Office of Enforcement and Compliance Assurance) |
| Research function cap | ORD |
| Management & support function cap | OCFO, OARM (Office of Administration and Resources Management), OEI (Office of Environmental Information), and OGC (Office of General Counsel) |

¹ Source: EPA financial statements adjusted to constant 2003 dollars.



Expenditure Data Has Additional Limitations

- Expenditure data do not account for direct expenditures made by responsible parties. Given that responsible parties currently conduct over 70% of Superfund cleanups, EPA expenditure data underestimate the actual amount spent on remediation or programmatic activities.
- Expenditure data do not include ATSDR and NIEHS expenditures. In 2003, ATSDR and NIEHS received \$73 million and \$79 million, respectively, for a total of \$152 million.



Observations

- Administrative expenditures for Superfund personnel increased in the last 5 years while programmatic expenditures decreased.
- EPA supplements the Superfund appropriation by using the EPM appropriation to pay support activity costs. According to OCFO, this keeps Superfund's administrative costs within the Superfund management and support function cap.
- Because EPA does not consistently define, track, or account for its administrative expenditures, true expenditures are not fully understood and cannot be effectively managed.



Question 2

How effective are the processes and criteria for determining, allocating, and optimizing regional and headquarters' administrative and support resources?



Question 2: Scope and Methodology

- We reviewed processes and criteria in place as of 2003.
- We obtained information from: interviews with Agency Headquarters and regional officials and individuals from ATSDR and NIEHS; reviews of Government Accountability Office (GAO), OIG, and others' evaluations, audits, testimony, and studies performed during the last 5 years; a survey of all EPA regions; a personnel activities survey in two regions; and review of Agency and other documentation.
- We obtained data from IFMS, CPARS, and CERCLIS (Comprehensive Environmental Response, Compensation, and Liability Information System).
- As noted previously, we did not test internal controls for these systems. Other reports have identified weaknesses in IFMS and CERCLIS.



Superfund Administrative Costs Not Effectively Managed

- Several factors inhibit the Agency's ability to effectively determine, allocate, manage, and optimize administrative costs. Factors include:
 - Lack of clear criteria and management information for identifying and evaluating administrative costs.
 - Outdated methodology for determining and allocating costs.
 - Functional management of funding that inhibits ability to manage effectively and optimize resources.



Criteria for Identifying, Reporting, and Analyzing Administrative Costs Lacking

- OCFO defines “administrative” and “programmatic” costs for budgetary purposes.
 - OCFO defines administrative expenditures as staff, support, and overhead-related costs, including payroll, rent, office supplies and equipment, facilities, maintenance, and general (non-technical) training.
 - OCFO defines programmatic expenditures as costs that are specifically driven by environmental statute and program activities, including extramural cleanup activities, special-use facility-related costs, and unique and limited-use item-related costs.
 - OSWER does not agree with this definition, which categorizes all personnel costs as “administrative,” but has not taken steps to define administrative costs.
- There is no central, integrated source of information on Superfund administrative costs.
 - Neither the Agency’s accounting system (IFMS) nor its payroll accounting system (CPARS) provides detailed data on FTE activities -- the main component of administrative costs.
 - Administrative costs absorbed by EPM are not identified in IFMS as Superfund expenditures.



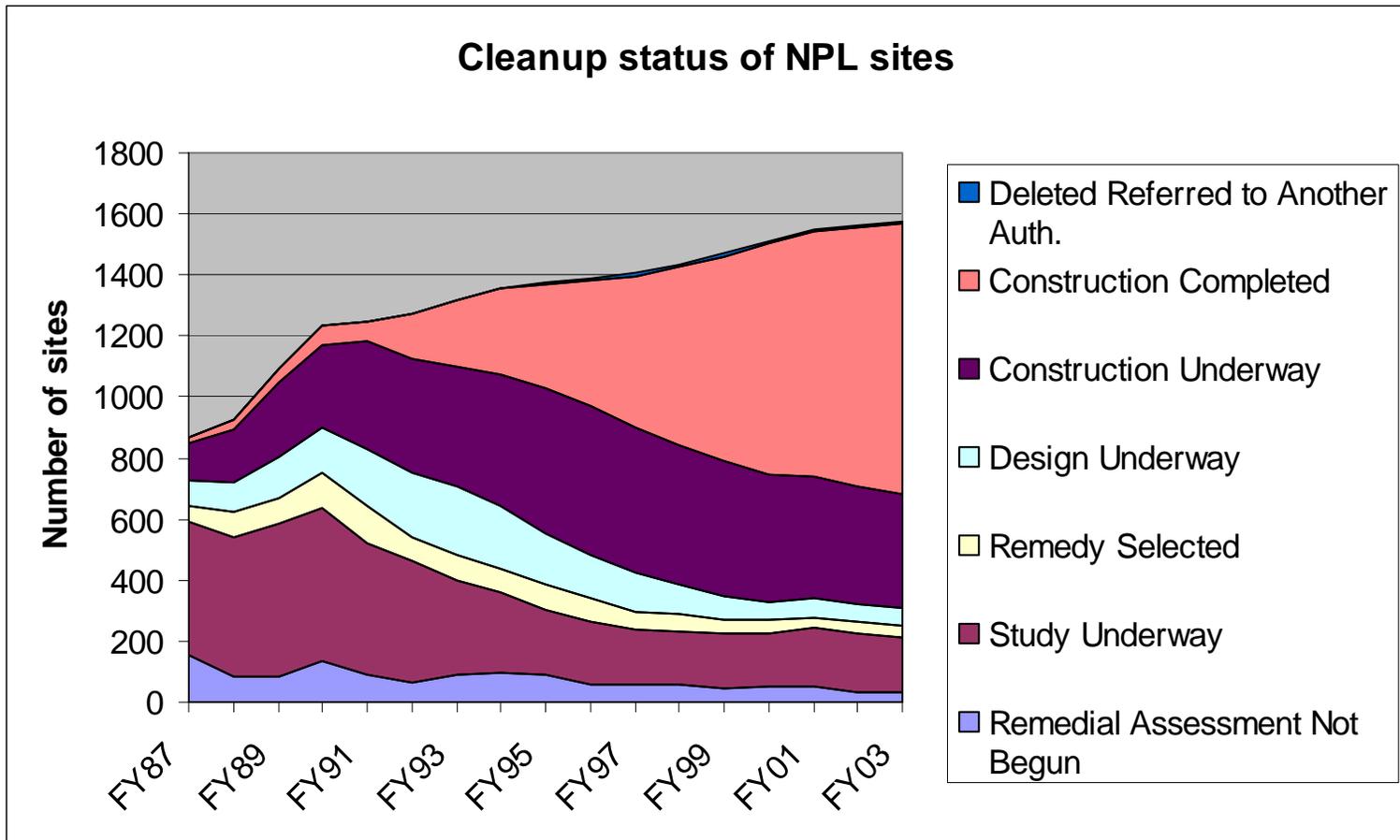
Administrative Requirements and Allocations Historically Based

- Administrative requirements and allocations largely based on prior years' allocations.
- FTE allocations are historical and based on an outdated Agency workload model.
 - EPA bases requirements and allocations on an outdated workload model that cannot be located and has not been updated since 1987.
 - An internal EPA study¹ indicated FTE regional allocations are “heavily influenced” by the historic number of National Priorities List (NPL) sites. However:
 - The number and status of NPL sites has changed since 1987.
 - New missions have been added and reduced (e.g., homeland security, Brownfields legislation).

¹Source: Superfund Regional Workforce Analysis March 2004



Change in Status and Number of Superfund Sites, 1987 to 2003



Source: OIG analysis of EPA data



Superfund Personnel Allocations Based on Outdated Workload Model

- Without a comprehensive assessment of FTE distribution and workload across the regions and Headquarters, it would be difficult for EPA management to optimally allocate resources.
- Nine of 10 EPA regions allocate some portion of Superfund FTE to activities in their regions, such as community involvement, public affairs, and the Regional Administrator's Office. (We did not verify whether these FTE performed Superfund-related functions.)
- Sub-optimum allocations of regional FTE could impact other Superfund administrative costs, including overhead charges.
 - Regional overhead (regional support account costs) is allocated based on the proportion of Superfund FTE to total regional FTE.



Appropriation Function Caps Provide Superfund Cost Allocation Framework

- Appropriation function caps provide Superfund cost management framework for Agency, resulting in:
 - Decentralized management of Superfund administrative costs.
 - Stovepipe management of Superfund resources within EPA and across Agencies.



Stovepipe Management Framework Impacts Superfund

- OSWER does not have full authority over Superfund resources, although it is accountable for cleanup goals.
 - Funds are allocated separately to support organizations, such as OARM, ORD, and OCFO.
 - OSWER has authority over only half of Superfund FTE. (Personnel comprise majority of known administrative costs.)
 - ORD makes the final determination on Superfund research priorities even though EPA's strategic plan indicates that research is a support function for Superfund.
 - OECA makes the final determination on enforcement resource priorities.



Research Funds Split Among Three Agencies

- ORD, ATSDR, and NIEHS all receive funding for Superfund research, but no formal mechanism exists to prevent unintended duplication of research.
- According to GAO reports,¹ ATSDR and EPA perform duplicate health assessments. GAO stated that EPA officials believe ATSDR health assessments are not useful because they are not timely.
- EPA Regions say NIEHS does not contribute directly to Superfund response and remediation goals -- NIEHS's mission is basic research, not remediation.



Opportunities and Information to Optimize Resources Exist: *Many Prior Recommendations Made*

- Numerous external studies by GAO, OIG, and others (such as Resources for the Future) have recommended improvements and better practices.
 - Fifteen reports addressed five key administrative-related activities between 1996 and 2003.
 - Over 50 recommendations made to address these activities: contracting, cost accounting, deobligations, use of workload model, and special accounts.
- EPA has conducted numerous studies that have also recommended improvements. For example, the 2004 “120-day” study made over 100 recommendations, and some are being considered or tried.
- Notwithstanding, inefficiencies persist in such key areas as:
(a) contracting, (b) special accounts, and (c) unspent obligations.



Opportunities and Information to Optimize Resources Exist: *Management of Contracting*

- In FY 2003, approximately \$1.1 billion, or about 75%, of Superfund expenditures were for contracts, interagency agreements, and grants.
- Contracts are for cleanup-related activities, administrative functions, other activities.
- Reports by GAO, OIG, and Agency highlight lingering issues with ineffective and inefficient management of contracts, interagency agreements, and grants (e.g., use of independent cost estimates).
- Internal and external reports recommended contracting efficiencies:
 - Consistently using government cost estimates.
 - Analyzing and negotiating a standard overhead rate for Federal agencies.
 - Using the most cost-effective contracting mechanism.
 - Consolidating administrative functions.
- The Agency has taken steps to improve contract cost estimation, such as:
 - Development of a cost estimating “tool box.”
 - Issuing a memorandum highlighting the resources available to generate cost estimates.
 - Requesting data to evaluate cost estimate quality.
 - Discussing importance of cost estimating at Superfund Senior Regional Management and Acquisition Council meetings.



Opportunities and Information to Optimize Resources Exist: *Management of Special Accounts*

- Special accounts represent a major source of funding for the Superfund program, collecting about \$1.41 billion as of July 2004.
- Agency's 120-day study and OIG have made several recommendations to improve the management of special accounts.
 - Instruct Regional staff on the existence, purpose, and usage of special accounts related to their sites.
 - Develop fact sheets on setting up special accounts, utilizing special account dollars, and closing out the accounts.
 - Regions should track and periodically report to headquarters how much special account money they are using annually and how they are using it.
- EPA has issued guidance and conducted training to assist regions with the management of special accounts.
- Regions have deobligated money from special accounts for use at other regional priority sites.



Opportunities and Information to Optimize Resources Exist: *Recovery of Unspent Obligations*

- Since early 1990s, GAO and OIG have reported that recovery of unspent funds is a long-standing problem. The 2004 120-day study notes that significant amounts of funds remain underutilized. Problems include:
 - Closeout of completed contracts and interagency agreements continue to be delayed.
 - Regions are obligating funds for contracts and Army Corps of Engineers interagency agreements in excess of near-term requirements.
 - Agency estimates indicate there is potentially about \$80 million in unspent remedial contract obligations that exceed the projected requirements for 2 years.
- OSWER has taken actions to use unspent funds, deobligating \$328 million for FY 2002 and 2003 from contract obligations.



Opportunities and Information to Optimize Resources Exist: *Tracking of Actions Completed Is Limited*

- EPA does not follow up to see if corrections solved the problem.
 - Status and effectiveness of actions taken not routinely tracked or analyzed.
- The Agency does not have a well-defined system to track actions recommended by internal studies.



Opportunities and Information to Optimize Resources Exist: *Processes to Implement Best Practices Limited*

- OECA and OSWER have many venues to discuss best practices, e.g., national meetings, telephone conference calls, monthly meetings.
 - According to the Agency, OSWER and OECA have benchmarking work underway.
- There does not appear to be a common strategy to evaluate, implement, and monitor the effectiveness of the best practices across the regions.



Observations

- Congressional function caps translate into a management framework for the Superfund program that is characterized by stovepipe allocation and management of Superfund resources.
- Outdated workload model limits EPA's ability to effectively manage Superfund
- Lack of coordination could impact research effectiveness.
- Stovepipe approaches to managing Superfund resources, and limitations associated with an outdated Superfund workload model, are barriers to administrative efficiency, minimizing duplication, and the optimum use of resources.
- Because EPA's processes to track the effectiveness of recommended actions to improve the Superfund program are limited, continuing and repeated recommendations on how to improve the program's efficiency and effectiveness may not achieve desired results.



EPA OIG Major Contributors

Carolyn Copper

Katherine Thompson

Chad Kincheloe

Tina Lovingood

Pankaj Arora

Katherine Beam

Jee Kim

Jessica Knight

Laura Tam

Bryan Holtrop