

A *Audit*



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FY 2000 DOD SUPERFUND FINANCIAL TRANSACTIONS

Report No. D-2001-174

August 16, 2001

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Department of Defense

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Abstract Annual audits of DoD Superfund financial transactions are required by section 9611(k) title 42, United States Code. The Environmental Protection Agency (EPA) manages the Superfund, which is a trust fund that Congress established to respond to hazardous waste emergencies and to fund the cleanup of hazardous waste. The Superfund pays for the cleanup of hazardous waste when the responsible party either cannot be identified or will not perform the cleanup work and when a State will not assume responsibility. The Army Corps of Engineers (the Corps) manages the design and construction of cleanup sites paid for by the Environmental Protection Agency with money from the Superfund. The Environmental Protection Agency issues program authority to the Corps through interagency agreements. During FY 2000, for Superfund projects, the Corps recorded 73,106 financial transactions totaling \$597.3 million.		
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Acronyms

CEFMS	Corps of Engineers Financial Management System
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
EPA	Environmental Protection Agency



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August 16, 2001

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on FY 2000 DoD Superfund Financial Transactions
(Report No. D-2001-174)

We are providing this audit report for information and use. We performed this audit to comply with section 9611(k), title 42, United States Code, for annual audits of Superfund financial transactions. Because this report contains no recommendations, no written comments were required, and none were received. Therefore, we are publishing this report in final form.

We appreciate the courtesies extended to the audit staff. Questions on this audit should be directed to Mr. James Kornides at (614) 751-1400, extension 211 (jkornides@dodig.osd.mil), or Mr. John K. Issel at (614) 751-1400, extension 212 (jissel@dodig.osd.mil). See Appendix C for the report distribution. The audit team members are listed inside the back cover.

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Report No. D-2001-174

August 16, 2001

(Project No. D2001FJ-0003)

FY 2000 DoD Superfund Financial Transactions

Executive Summary

Introduction. Annual audits of DoD Superfund financial transactions are required by section 9611(k) title 42, United States Code. The Environmental Protection Agency (EPA) manages the Superfund, which is a trust fund that Congress established to respond to hazardous waste emergencies and to fund the cleanup of hazardous waste. The Superfund pays for the cleanup of hazardous waste when the responsible party either cannot be identified or will not perform the cleanup work and when a State will not assume responsibility. The Army Corps of Engineers (the Corps) manages the design and construction of cleanup sites paid for by the Environmental Protection Agency with money from the Superfund. The Environmental Protection Agency issues program authority to the Corps through interagency agreements. During FY 2000, for Superfund projects, the Corps recorded 73,106 financial transactions totaling \$597.3 million.

Objectives. The overall audit objective was to determine whether the Corps properly administered its portion of the Superfund. Specific objectives were to determine whether the Corps supported and accurately recorded obligation and disbursement transactions charged to Superfund projects during FY 2000, and to assess the Corps management control program as it relates to Superfund transactions.

Results. We audited 12 of the 44 Corps organizations that used the Corps of Engineers Financial Management System to record Superfund financial transactions. The statistical projections indicate that the Superfund financial transactions, valued at \$597.3 million, had a maximum net misstatement less than \$1,677,541.00 (0.2809) of the total value recorded. The small number of discrepancies did not indicate a systemic control weakness or materially affect our conclusions that the Corps properly administered its portion of the Superfund. The management controls we reviewed were effective in that we identified no material weakness. See Appendix A for details on the management control program.

The 1980 statutory requirement for this annual audit of *all* Superfund financial transactions should be amended. The need for the annual audit in DoD is questionable because the audits determined that the Superfund financial transactions were:

99.80 percent accurate in FY 1998,
99.94 percent accurate in FY 1999, and
99.72 percent accurate in FY 2000.

The annual required audit of the Superfund also overlaps with requirements of the Chief Financial Officers Act of 1990 and causes an unnecessary use of audit resources. We proposed a legislative change in December 1999 to delete the annual audit requirement of the Superfund in the Comprehensive Environmental Response, Compensation, and Liability Act. However, the EPA objected to the Office of Management and Budget to changes to the Comprehensive Environmental Response, Compensation, and Liability Act, and the legislative proposal was not sent to Congress. The legislative proposal about the annual audit requirement was revised to address the EPA concerns and was resubmitted to DoD in October of 2000. The EPA did not object to the revised legislative proposal and it was submitted to the Congress in 2001.

Management Comments. We provided a draft of this report on July 5, 2001. Because this report contains no recommendations, written comments were not required, and none were received. Therefore, we are publishing this report in final form.

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Background

The Superfund is a trust fund that Congress established to respond to hazardous waste emergencies. The Superfund also funds the cleanup of hazardous waste when the responsible party either cannot be identified or will not perform the cleanup work and when a State will not assume responsibility. The Environmental Protection Agency (EPA) is the manager of the Superfund.

The Army Corps of Engineers (the Corps) is responsible for managing the design and implementation of remedial action plans for cleanup, using money from the Superfund, of certain sites on the national priority list that EPA designated. The EPA issues program authority to the Corps through interagency agreements. During FY 2000, for Superfund projects, the Corps recorded obligation and disbursement transactions totaling \$597.3 million.

Audit Requirements. Annual audits of all Superfund financial transactions are required by the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) in section 9611(k), title 42, United States Code. The audit was required to verify that the Superfund was properly administered and that claims were appropriately and expeditiously considered.

The requirement for the audit was enacted in 1980. At that time, Congress had valid concerns about recordkeeping related to uses of the Superfund. Since then, the Chief Financial Officers Act of 1990 required annual financial statement audits.

As a result of the Chief Financial Officers Act requirements, the Corps improved its financial management system and practices, which improved handling of Superfund financial transactions. Also, the annual audit requirements in CERCLA and the Chief Financial Officers Act overlap and cause an unnecessary use of audit resources. The CERCLA requirement for an audit of *all* payments and obligations is more labor intensive than the Chief Financial Officers Act audit requirements. There is no longer a need for the annual audit of Superfund financial transactions in DoD.

The Office of the Inspector General, DoD, prepared a legislative proposal in December 1999 to delete the annual audit requirement in CERCLA. However, the EPA objected to the Office of Management and Budget concerning any changes to CERCLA, and the legislative proposal was not sent to Congress. After 20 years of audits and now excellent Superfund financial records at the Corps, the CERCLA requirement for the audit is unjustified. The legislative proposal to

revise the annual audit requirement was revised to address the EPA concerns and was resubmitted to DoD in October 2000. The EPA accepted this legislative proposal the Office of Management and Budget submitted the proposal to Congress.

Objectives

The overall audit objective was to determine whether the Corps properly administered its portion of the Superfund. Specific objectives were to determine whether the Corps supported and accurately recorded obligation and disbursement transactions charged to Superfund projects during FY 2000. We also evaluated the Corps management control program as it relates to Superfund transactions. See Appendix A for a discussion of the audit scope and methodology and our review of the management control program.

Superfund Financial Transactions

Using statistical sampling to select the audit sites, we audited 12 of the 44 Army Corps of Engineers organizations that used the Corps of Engineers Financial Management System to record Superfund financial transactions. The statistical projections indicate that the Superfund financial transactions, valued at \$597.3 million, had a maximum net misstatement less than \$1,677,541.00 (0.2809) of the total value recorded and was not material. The small number of discrepancies did not result in any systemic control weakness or materially affect our conclusions that the Corps of Engineers properly administered its portion of the Superfund. The 12 Corps organizations had adequate management controls over the Superfund transactions.

Criteria for Superfund Transactions

The criteria for the Superfund are found in the EPA guidance for Federal agencies, "Superfund Financial Management and Recording," January 1989. The guidance requires authorization and documentation for all costs charged to Superfund projects. EPA can then sustain cost claims in court while attempting to recover funds from responsible parties. Specifically, the guidance requires each cleanup site to retain documents. Documentation should include the following:

- time and attendance records
- pay estimates
- contractor invoices with project officer approval
- proof of payment
- progress reports
- interagency agreements and
- worksheets showing calculations of indirect costs.

Administration of the Superfund

The 12 Corps organizations properly administered the FY 2000 Superfund financial transactions for the statistically selected sample. In our review of financial transactions charged to the Superfund, we did not identify any material errors.

Statistical Sample of Corps Locations. We statistically sampled \$25.4 million of the \$597.3 million in FY 2000 Superfund financial transactions processed through CEFMS in FY 2000. The sample consisted of 30 different samples of 25 transactions each, but required audit work at only 12 locations. The sites selected for review were the Corps districts in Omaha, Nebraska; Walla Walla, Washington; New York, New York; Boston, Massachusetts; Seattle, Washington; Mobile, Alabama; Baltimore, Maryland; Jacksonville, Florida; New Orleans, Louisiana; Philadelphia, Pennsylvania; the North Western Division, Portland, Oregon; and Corps Headquarters, Washington, D.C.

Supporting Documentation. The 12 statistically selected Corps organizations properly administered FY 2000 Superfund financial transactions for the 750 sample transactions. The Corps organizations were generally able to provide supporting documentation for the Superfund financial transactions selected for review. Supporting documentation for obligations consisted of contracts, contract modifications, interagency or interdistrict agreements, travel authorizations, and purchase requests. Disbursements were supported by contracts, contract invoices, receiving reports, time sheets, and other appropriate documents. The documents supporting the transactions were properly authorized and recorded.

For the statistically selected transactions reviewed at the 12 Corps organizations, the audit disclosed no material errors. Specifically, the organizations were able to provide accurate and reliable supporting documentation for all but an immaterial amount (\$6,750.03 absolute value) of the transactions reviewed.

Discrepancies were found in three Corps Districts and one Corps Division. The discrepant transactions in each Corps organization were as follows.

Omaha District. In the Omaha District, three transactions were determined to be either erroneous or not fully supported. Two of the discrepancies, valued at \$6,123.94, were for transactions associated with the supervision and administration charges for Superfund projects in the Rapid Response program. In April 2000, the Rapid Response program's request to use actual cost rather than the flat rate method to capture supervision and administration costs was approved. The Lammers Barrel Factory, Rapid Response Superfund project was erroneously established in CEFMS under both the actual cost and flat rate method. This resulted in the duplication of supervision and administrative charges to the

Superfund for this project. Another labor transaction valued at \$38,720.81 could not be fully supported. The employee time sheets did not all agree with the timekeeping system for (1 of the 25 employees) whose time made up the transaction. The timekeeper error consisted of 2.5 hours of annual leave charged to the Superfund, which resulted in an overcharge of \$181.74. The Omaha District initiated action to adjust the erroneous transactions.

Seattle District. In the Seattle District, one revolving fund transaction was not fully supported. The discrepancy, valued at \$184.00, resulted from an incorrect rate that was applied to the Revolving Fund Facility Account titled "Engineering Automation Services". The Seattle District initiated action to adjust the accounting records for the project.

North Western Division. In the North Western Division, Portland, Oregon, one transaction was determined to be inappropriately charged to the Superfund. The Division incorrectly charged a \$250.00 cash award to the Superfund. The justification used for the on-the-spot award cited the "extra special job on the Restoration of Abandoned Mines Program." The Restoration of Abandoned Mines Program is not a Superfund program and it would not be appropriate for the Superfund to bear the burden of this expense.

Mobile District. In the Mobile District, supporting documentation could not be provided for one revolving fund transaction valued at \$10.35. The transaction was for a Federal Express delivery charge. The Mobile Corps District Internal Review Staff issued Audit Report No. CESAM-IR 01-02, "Review of Travel Office FED EX Procedures," January 3, 2001. In that Report the weaknesses of the process have been identified and corrective actions have been initiated.

Summary

We reviewed statistically selected financial transactions at 12 Corps organizations. In most cases, the policies, procedures, and controls established by EPA, DoD, and the Corps to manage Superfund obligations and disbursements were effective. Also, we found no material errors for the transactions tested. We are 97.5-percent confident that the net misstatement of the total dollar value of the Superfund financial transactions recorded in the CEFMS is not greater than \$1,677,541. The errors that occurred were not material when projected to the entire population of transactions, and did not indicate a systemic problem. Therefore, we are not making any recommendations. The obligations and disbursements that represented FY 2000 DoD Superfund financial transactions were accurately recorded and free of material error or misstatement.

Appendix A. Audit Process

Scope

We reviewed the policies, procedures, and controls that EPA, DoD, and the Corps established for financial management of Superfund obligations and disbursements. During FY 2000, for Superfund projects, the Corps recorded financial transactions totaling \$597.3 million.

DoD-Wide Corporate-Level Government Performance and Results Act Goals. In response to the Government Performance and Results Act, the Secretary of Defense annually establishes DoD-wide corporate-level goals, subordinate performance goals, and performance measures. This report pertains to achievement of the following goal, subordinate performance goal, and performance measures:

- **FY 2001 DoD Corporate-Level Goal 2:** Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. **(01-DoD-2)**
- **FY 2001 Subordinate Performance Goal 2.5:** Improve DoD financial and information management. **(01-DoD-2.5)**
- **FY 2001 Performance Measure 2.5.2:** Achieve unqualified opinions on financial statements. **(01-DoD-2.5.2.)**

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objective and goal:

- **Financial Management Functional Area. Objective:** Strengthen internal controls. **Goal:** Improve compliance with the Federal Managers' Financial Integrity Act. **(FM-5.3)**

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in DoD. This report provides coverage of the Financial Management high-risk area.

Methodology

Use of Computer-Processed Data. We relied on computer-processed data extracted from CEFMS. Although we did not formally assess the reliability of the computer-processed data, the source documentation agreed with the computer-processed data used in our sample. We did not find errors that would preclude the use of the computer-processed data to meet the audit objective.

Sampling Plan. The purpose of the statistical sampling plan was to estimate the net misstatement of the total dollar value reported for FY 2000 DoD Superfund financial transactions, as reported in CEFMS.

Audit Universe Represented. The CEFMS database contained the FY 2000 DoD Superfund financial transactions. The CEFMS database financial transactions consisted of 73,106 transactions with a value of \$597.3 million at 44 locations.

Sampling Design. The sampling design used to determine the accuracy of the total dollar value reported was a two-stage design. The probability was proportional to size, with replacement at the first stage, and stratification at the second stage. At the second stage, the transactions were stratified into two strata, revolving fund and labor transactions, and all others. We selected 30 different samples of 25 transactions each, 10 from the revolving fund and labor transactions, and 15 from the all other transactions. Although we selected 30 different samples, it required audit work at only 12 different locations.

Sample Results. The table below lists the number of items sampled and the errors identified by location.

Results of Review				
Location	Number Sampled	Value of Sample	Errors	Value of Errors
Boston	225	\$ 6,933,654.32	0	\$ 0
Philadelphia	100	12,811,767.89	0	0
Omaha	100	794,871.76	3	6,305.68
Baltimore	75	1,003,953.71	0	0
Seattle	50	1,314,524.66	1	184.00
Washington	50	108,270.96	0	0
New York	25	1,606,936.86	0	0
Mobile	25	77,075.75	1	10.35
Walla Walla	25	26,927.27	0	0
Portland	25	17,313.86	1	250.00
New Orleans	25	256,869.13	0	0
Jacksonville	25	479,717.76	0	0
Total	750	\$25,431,883.93	6	\$6,750.03

Statistical Projection. We derived the following statistical estimate of the accuracy of the CEFMS dollar values from our sample data. We are 97.5- percent confident that the net misstatement of the total dollar value of the Superfund financial transactions recorded in the CEFMS is not greater than \$1,677,541 overstated.

Use of Technical Assistance. We obtained technical assistance on statistical sampling from the Quantitative Methods Division of the Audit Followup and Technical Support Directorate, Office of the Assistant Inspector General for Auditing, DoD.

Audit Period and Standards. This financial-related audit was performed from October 2000 through June 2001 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Our review included tests of management controls that we considered necessary. We did our work in accordance with generally accepted Government auditing standards except that we were unable to obtain an opinion on our system of quality control. The most recent external quality control review was withdrawn on March 15, 2001, and we will undergo a new review.

Contacts During the Audit. We visited or contacted individuals or organizations within DoD and EPA. Further details are available on request.

Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed the adequacy of the Corps management controls over the accounting and recording of Superfund financial transactions. Specifically, we reviewed the management controls established to ensure that Superfund obligation and disbursement transactions were reliable and completely recorded and that proper documentation was maintained to support the recorded transactions. Because we did not identify a material weakness, we did not assess the adequacy of management's self-evaluation.

Adequacy of Management Controls. The Corps had established management controls over the statistically sampled \$25.4 million Superfund financial

transactions reviewed. The obligation and disbursement of funds were in accordance with applicable Superfund laws and regulations. Management controls at the Corps districts that we visited were adequate in that we identified no material management control weaknesses. However, in its review of the Army Corps of Engineers, Civil Works, FY 2000 Financial Statement, the Army Audit Agency concluded that the Corps needed to improve general and application controls related to network and data processing activities for financial statements. As a result, the Army Audit Agency auditors could not rely on the data in the Corps of Engineers Financial Management System to produce financial statements. The auditors were not able to render an opinion on the financial statements.

Appendix B. Summary of Prior Coverage

Inspector General, DoD

Inspector General, DoD, Report No. D-2000-184, "FY 1999 DoD Superfund Financial Transactions," August 31, 2000

Inspector General, DoD, Report No. 99-257, "FY 1998 DoD Superfund Financial Transactions," September 22, 1999

Inspector General, DoD, Report No. 98-200, "FY 1997 DoD Superfund Financial Transactions," September 16, 1998

Inspector General, DoD, Report No. 97-212, "FY 1996 DoD Superfund Financial Transactions," September 4, 1997

Appendix C. Report Distribution

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House Subcommittee on Defense, Committee on Appropriations

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House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform

House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform

House Subcommittee on Technology and Procurement Policy, Committee on Government Reform

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