



JUL 26 1994

Memorandum

Date *for* *Michael Mangano*
June Gibbs Brown
Inspector General

From

Subject Superfund Financial Activities at the Agency for Toxic
Substances and Disease Registry for Fiscal Year 1992
(A-04-93-04518)

To Philip R. Lee, M.D.
Assistant Secretary for Health

The attached final report provides you with the results of our audit of the Agency for Toxic Substances and Disease Registry (ATSDR) Superfund financial activities for Fiscal Year (FY) 1992. Our audit was conducted pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended. This act requires the Inspector General of each Federal organization with Superfund responsibilities, to conduct audits of all payments, obligations, reimbursements, or other uses of the Superfund. Through interagency agreements with the Environmental Protection Agency, ATSDR obligated \$56.2 million and disbursed \$54.8 million in Superfund resources during FY 1992.

Our audit disclosed that ATSDR generally administered the fund according to Superfund legislation. However, we determined that the Centers for Disease Control and Prevention (CDC), which provides administrative services to ATSDR, and ATSDR did not have procedures in place to ensure that all Superfund grantees had obtained independent audits. As a result, CDC and ATSDR were not aware whether audit requirements were being met. Further, they were not aware whether some grantees who did not submit the required audit reports should have been sanctioned. Regarding recommendations in our prior audit report that covered activities for FY 1991, ATSDR implemented, or is in the process of implementing, all of the necessary recommendations.

We are recommending that the Public Health Service (PHS) direct CDC and ATSDR to: (1) establish procedures to ensure that all Superfund grantees submit audit reports; (2) sanction grantees who are unwilling to have a proper audit conducted; and (3) require the 16 grantees identified in this report to obtain the necessary audits.

In its written response, the PHS agreed to ask CDC to ensure that audit reports are submitted for Superfund grantees. The PHS also agreed to take appropriate action should any grantee refuse to submit a required audit report. Further, PHS has arranged for the 16 audits which were not complete at the time of our audit to be completed.

Page 2 - Philip R. Lee, M.D.

We would appreciate being advised within 60 days on the status of corrective actions taken or planned on each recommendation. Should you wish to discuss the issues raised by our review and recommendations, please call me or have your staff contact Michael R. Hill, Assistant Inspector General for Public Health Service Audits, at (301) 443-3582. Please refer to the Common Identification Number A-04-93-04518 in all correspondence relating to this report.

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 1992**



JUNE GIBBS BROWN
Inspector General

JULY 1994
A-04-93-04518

EXECUTIVE SUMMARY

This report provides the results of our audit of the Agency for Toxic Substances and Disease Registry (ATSDR)' Superfund financial activities for Fiscal Year (FY) 1992. 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 funds through interagency agreements (IAG) with the Environmental Protection Agency (EPA) to carry out health related and other functions mandated by Superfund legislation. During the period October 1, 1991 through September 30, 1992, the ATSDR's obligations of Superfund resources totaled about \$56.2 million and disbursements totaled about \$54.8 million.

Our audit disclosed that ATSDR generally administered the fund according to Superfund legislation. However, we determined that the Centers for Disease Control and Prevention (CDC), which provides administrative services to ATSDR, and ATSDR did not have procedures in place to ensure that all Superfund grantees had obtained independent audits. As a result, CDC and ATSDR were not aware whether audit requirements were being met. Further, they were not aware whether some grantees who did not submit the required audit reports should have been sanctioned. Regarding recommendations in our prior audit report that covered activities for FY 1991, ATSDR implemented, or is in the process of implementing, all of the necessary recommendations.

We are recommending that the Public Health Service (PHS) direct CDC and ATSDR to: (1) establish procedures to ensure that all Superfund grantees submit audit reports; (2) sanction grantees who are unwilling to have a proper audit conducted; and (3) require the 16 grantees identified in this report to obtain the necessary audits.

In its written response, PHS agreed that procedures should be established to ensure that the appropriate audit reports are submitted by all of the Department of Health and Human Services (HHS) grantees. However, PHS believes that such procedures should be at a central control point within the Federal Government. If that is not possible, it believes that this responsibility should be at the Office of the Secretary level.

Although the PHS does not believe it is responsible for ensuring that audit reports are received for all PHS grantees, it did agree to ask CDC to ensure that audit reports are submitted for

Superfund grantees. The PHS also agreed to take appropriate action should any grantee refuse to submit a required audit report.

CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	i
CONTENTS	iii
ABBREVIATIONS USED	iv
BACKGROUND	1
OBJECTIVES, SCOPE AND METHODOLOGY	1
RESULTS OF AUDIT	3
ALLOWABILITY OF COSTS	4
OVERHEAD	4
COSTS RECORDED ON A SITE-SPECIFIC BASIS	4
MINORITY BUSINESS UTILIZATION REPORT	5
COMPLIANCE	5
INTERNAL CONTROLS	5
FINDINGS AND RECOMMENDATIONS - GRANTEE AUDITS	6
RECOMMENDATIONS	8
PHS COMMENTS	8
FOLLOW-UP OF PRIOR REVIEW	9
GRANT RECIPIENT CASH DRAW DOWNS	9
PAYROLL ERRORS	9
RECORDING OF ACCRUALS	10
APPENDIX A - FISCAL YEAR 1992 ATSDR FINANCIAL STATEMENTS AND NOTES	
APPENDIX B - PUBLIC HEALTH SERVICE COMMENTS	

ABBREVIATIONS USED

Act	Comprehensive Environmental Response, Compensation, and Liability Act of 1980
ATSDR	Agency for Toxic Substances and Disease Registry
CDC	Centers for Disease Control and Prevention
CFR	Code of Federal Regulations
CIN	Common Identification Number
DPM	HHS Division of Payment Management
EPA	Environmental Protection Agency
FY	Fiscal Year
GMO	Grants Management Officer
HHS	Department of Health and Human Services
IAG	Interagency Agreement
KPMG	KPMG Peat Marwick, Certified Public Accountants
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 formally organized in June 1985, as a separate agency of PHS. However, the CDC performs accounting and administrative functions for ATSDR. The CDC is also an agency of PHS within HHS.

The Act mandated the establishment of the Hazardous Substance Response Fund, which is commonly known as 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 the EPA. The fund is used to respond to emergency environmental conditions, which are hazardous to health, and to pay for the removal of toxic substances.

The ATSDR receives funding from EPA to carry out functions mandated by the Act. In carrying out its Superfund responsibilities, ATSDR conducts health assessments, health consultations, pilot health-effects studies, and health surveillance programs. In addition, ATSDR produces toxicological profiles and a listing of areas closed to the public. They also maintain a national registry of serious diseases, illnesses, and persons exposed to toxic substances.

Funds are obligated by ATSDR when it agrees to fund activities related to the Act. Funds are disbursed by ATSDR after the activities have been completed. During the period October 1, 1991 through September 30, 1992, ATSDR obligated about \$56.2 million and disbursed about \$54.8 million in Superfund resources. Of the \$54.8 million of disbursements, about \$28.6 million were from FY 1992 funds and about \$26.2 million were from prior years' funds.

The ATSDR prepared Superfund financial statements for FY 1992. These financial statements are included as the Appendix A to this report.

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of our audit were to determine:

- the allowability, allocability, and reasonableness of costs claimed under ATSDR's agreement with EPA;
- whether ATSDR 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 ATSDR was able to accurately record costs on a site-specific basis; and

- whether ATSDR submitted the minority business 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. We performed the audit in accordance with IAG DW75935900-01-0 between EPA's Office of Inspector General (OIG) and HHS' OIG. As part of the audit, we followed up on the recommendations contained in the prior audit to determine if CDC and ATSDR had taken corrective action. The prior audit, issued August 20, 1993, was conducted by KPMG Peat Marwick, Certified Public Accountants (KPMG), under contract with HHS' OIG (Common Identification Number (CIN): A-15-92-00010).

The CDC provided a financial transactions listing of Superfund obligations and disbursements for the period October 1, 1991 through September 30, 1992. From this listing, we reviewed a random stratified sample of 200 items. The first strata consisted of 50 personnel disbursement transactions totaling \$61,604. The second strata consisted of 150 nongrant disbursement transactions totaling \$524,115 (this amount also included negative amounts which were adjustments to the accounts). In addition, we reviewed a judgmental sample of 25 unliquidated obligation transactions totaling \$767,207.

We compared the information presented in the financial statements, which were prepared by ATSDR, to the information provided by CDC in the transactions listing. We reviewed this information as a basis for responding to the objectives of the audit. These objectives did not include auditing the financial statements for the purpose of expressing an opinion on them. Therefore, we do not express an opinion on the fairness of the financial statements taken as a whole.

During FY 1992, ATSDR obligated \$16,972,306 for 99 cooperative agreements and grants. We verified these obligations to the award documents. The scope of our audit did not include auditing disbursements by the recipients. The awards over \$25,000 were subject to independent audits under Office of Management and Budget (OMB) Circular A-133 or A-128.

We determined whether ATSDR had obtained and used information from grantee audit reports. To do this, we contacted HHS' OIG, Office of Audit Services' National External Audit Review Center (NEARC) to determine whether FY 1991 grantees had submitted current audit reports in accordance with 45 Code of Federal Regulations (CFR) 74.62. The basis for determining whether a current audit had been submitted was the recipient's project period start date. According to OMB Circular A-133, a recipient has 2 years after costs are incurred to have an audit completed. Therefore, we determined whether a recipient had submitted an audit within 2 years of the end of the first year of the project.

We reviewed ATSDR's system to record costs on a site-specific basis, and analyzed the basis for recording costs.

We performed general tests of compliance with laws and regulations, such as those covering cost principles. In addition, we tested ATSDR's compliance with provisions of the following laws: (1) section 601 of the Economy Act of 1932 and amendments thereto IAG; (2) the Comptroller General Decisions 56 Comp. Gen. 275 (1977) and 57 Comp. Gen. 674 (1978) (inclusion of overhead in IAGs); (3) section 104(i) of the Act, (Functional Requirements of the Agency); and (4) section 105(f) of the Act (minority business utilization).

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

- Funding Authority
- Personnel Compensation and Benefits
- Payroll and Timekeeping
- Travel
- Other Contractual Services
- Grants, Subsidies, and Contributions
- Equipment
- Reporting

Our evaluation of internal controls included all of the categories noted above except Personnel Compensation and Benefits.

We conducted our audit in accordance with generally accepted government auditing standards applicable to financial-related audits. Our review was performed at ATSDR and CDC in Atlanta, Georgia, during the period June through August 1993. We performed additional work in the Atlanta Regional Office during the period September through October 1993.

The PHS provided a written response to our report dated May 31, 1994. The PHS' comments are summarized after the finding. The entire text of the comments is included as an Appendix B to this report.

RESULTS OF AUDIT

Our audit showed that ATSDR:

- generally incurred Superfund obligations and made disbursements for allowable, allocable, and reasonable costs; however, it did not have procedures to ensure that grantees comply with audit requirements;

- was in compliance with the Economy Act with regard to charging overhead;
- had an adequate automated system in place for recording costs on a site-specific basis; and
- submitted, in a timely manner, a minority business utilization report which was supported by relevant documentation.

In addition to reporting the results of our audit by objective, we have included compliance and internal control sections as required by generally accepted government accounting standards.

Our follow-up on the recommendations contained in the prior audit showed that ATSDR had taken or started all necessary actions to implement all recommendations in the prior report.

Allowability of Costs

The Superfund transactions included in our review for the period October 1, 1991 through September 30, 1992, relate to FY 1985 through FY 1992 funds. The financial transactions were generally properly and accurately recorded. Supporting documentation showed that obligations were incurred and disbursements were made for valid Superfund activities. We found no indication of payments or other uses of the Superfund monies, other than those shown in ATSDR's records as obligations and disbursements.

Our review of grant costs focused on a review of grantee audit reports. Our audit showed that CDC and ATSDR did not have adequate procedures to ensure that all Superfund grantees had obtained independent audits. See the finding entitled, "Grantee Audits", on page 6 of this report.

Overhead

Our review showed that ATSDR was in compliance with the Economy Act provision for charging overhead. In this regard, CDC charges a fee of \$4,873,540 for the administrative support services it provides to ATSDR. These fees are part of ATSDR's costs that are passed on to the Superfund.

Costs Recorded on a Site-Specific Basis

We concluded that ATSDR had an automated system in place for recording costs on a site-specific basis. Based on our review, this system appeared adequate.

Minority Business Utilization Report

The minority business utilization report is required annually by EPA. The report should list contracts with minority businesses. Our review showed that ATSDR entered into two contracts with minority businesses which were accurately reflected on the report. The ATSDR submitted the report in a timely manner.

Compliance

Compliance with laws, regulations, contracts, grants, and IAGs applicable to ATSDR is the responsibility of ATSDR's management. With respect to the items tested, ATSDR complied--except as described in the "Results of Audit" section of this report--in all material respects, with the provisions of applicable laws and regulations. With respect to items not tested, nothing came to our attention, which caused us to believe ATSDR had not complied, in all material respects, with those provisions.

Internal Controls

The ATSDR 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 the degree of compliance with the procedures may deteriorate.

Although our audit did not disclose material irregularities, we noted certain matters involving the internal control structure and its operations that we consider reportable conditions based on reporting requirements of generally accepted government auditing standards.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or 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.

Finding and Recommendations--Grantee Audits

Our review showed that CDC and ATSDR were not ensuring that grantees comply with the requirement to have audits conducted in accordance with Title 45 CFR, Part 74.62. This regulation defines the audit requirements for nonfederal audits for recipients and establishes that audit reports should be sent to NEARC. It also provides that Government recipients shall comply with OMB Circular A-128 and nongovernment recipients shall comply with OMB Circular A-133. These Circulars require recipients receiving \$25,000 or more a year in Federal financial assistance to obtain an audit.

Adequate procedures were not in place to ensure that required audits for Superfund recipients were being performed. As a result, CDC and ATSDR were not aware if audit requirements were being met. Further, they were not aware whether sanctions needed to be taken against recipients who had not submitted audit reports. Without obtaining and reviewing information contained in these reports, CDC and ATSDR had no assurance that accounting system weaknesses and the charging of unallowable costs which may have existed were being detected and corrected.

According to CDC policy, each grantee receives a copy of the *PHS Grants Policy Statement* at the time of award. The *PHS Grants Policy Statement*, Audit Section, page 8-24, states that:

"...45 CFR Part 74, Subpart H...require recipients to comply with OMB requirements for audits conducted by, or at the discretion of, the recipient. The OMB requirements explain the scope, frequency, and other aspects of the audit."

The Superfund award documents used by ATSDR contained a general reference that the provisions of both 45 CFR 74 and the *PHS Grants Policy Statement* were applicable to the award.

The CDC grants management personnel believe their notification procedure is adequate. Further, they believe it is not their responsibility to ensure that audits are conducted and that audit reports are submitted to NEARC.

However, section 101.3(a) of the *PHS Grants Administration Manual* states the grants management officer (GMO):

"...has overall responsibility for monitoring the grants process to ensure that all required business management actions are performed by the grantee and the Government in a timely manner, both prior to and after award...."

In addition, section 101.3(p)(1) states:

"GMO's shall serve as the receipt point, or obtain assurances of receipt, for performance reports, financial status reports, and most other reports required by the terms and conditions of the grant, and shall ensure that such reports are properly processed...."

Therefore, the GMO is responsible for obtaining assurance that audits are performed and the reports provided to the appropriate officials.

The CDC made some efforts to ensure recipients were aware of their responsibilities to have audits conducted. However, the required audits were not always performed and submitted to NEARC. The ATSDR entered into cooperative agreements with, or awarded grants to, 56 recipients in FY 1991. Of the 56 recipients, 47 were required to obtain audits and submit audit reports to NEARC in accordance with OMB Circular A-128 or A-133. The NEARC had not received audit reports from 8 of these 47 organizations. An additional eight organizations had not submitted a current audit to NEARC. In addition, neither CDC nor ATSDR were aware that these recipients had not submitted audit reports to NEARC. Section 8 of the attachment to OMB Circular A-133 includes this additional requirement for institutions of higher education and other nonprofit institutions for audits of FYs starting on or after January 1, 1990:

"In cases of continued inability or unwillingness to have a proper audit in accordance with the Circular, Federal agencies must consider appropriate sanctions including:

- withholding a percentage of awards until the audit is completed satisfactorily;
- withholding or disallowing overhead costs; or
- suspending Federal awards until the audit is made."

Section 17 of OMB Circular A-128 includes similar requirements regarding sanctions for State and local governments.

Knowing which grantees have not submitted audit reports would provide the grants management personnel with information needed to take follow-up actions and initiate sanctions, when needed.

RECOMMENDATIONS

The ATSDR is notifying grantees by a general reference to the CFR that audits are required. This procedure does not appear to be effective since 16 of the 47 grantees who were required to submit audits had not submitted a current audit report. In addition, under the current procedures, CDC and ATSDR would not be aware of those grantees who had not submitted audit reports and therefore, could not take the appropriate sanctions. We recommend that PHS direct CDC and ATSDR to:

- establish procedures to ensure that all Superfund grantees submit audit reports;
- sanction grantees who are unwilling to have a proper audit conducted; and
- take immediate action to have all required audits performed, including the 16 grantees for which the NEARC did not receive audit reports.

PHS COMMENTS

In its written response, PHS agreed that procedures should be established to ensure that the appropriate audit reports are submitted by all of HHS' grantees. However, PHS believes that such procedures should be at a central control point within the Federal Government. If that is not possible, it believes that this responsibility should be at the Office of the Secretary level.

The PHS stated that they have discussed this issue with the OIG, the Office of the Assistant Secretary for Management and Budget and OMB. Its response states,

"Staff in OASMB and OMB have indicated that the Single Audit Clearinghouse operated by the Bureau of the Census will be given the responsibility for following-up to ensure that single audit reports are submitted by recipients required to have single audits conducted. Until this occurs, we believe there should be a single control point within the Office of the Secretary which would be responsible for ensuring that all HHS grantees submit the required audit reports."

Although the PHS does not believe it is responsible for ensuring that audit reports are received for all PHS grantees, it did agree to ask CDC to ensure that audit reports are submitted for Superfund grantees. The PHS also agreed to take appropriate action should any grantee refuse to submit a required audit report.

The PHS also stated that the 16 reports which had not been submitted at the time of our audit have now been completed. Of the 16, 14 were State entities and all 14 of these have submitted their reports to NEARC. The ATSDR has obtained copies of the remaining two reports which were for nonprofit organizations. The ATSDR will forward these reports to NEARC.

FOLLOW-UP OF PRIOR REVIEW

Our follow-up on the recommendations contained in our prior audit (CIN A-15-92-00010 issued on August 6, 1993) showed that ATSDR had taken or started all necessary actions to implement recommendations in the prior report.

Grant Recipient Cash Draw Downs

In the previous audit, KPMG reported that grant recipients had excessive cash draw downs. The KPMG recommended that CDC develop and implement policies and procedures necessary to comply with Federal regulations regarding cash advances to grantees. These regulations require CDC to have internal operating procedures which monitor recipient's cash draw downs.

The PHS did not concur with this recommendation. The PHS stated that the HHS Division of Payment Management (DPM) is responsible for controlling the Federal funds in the hands of recipients as stated in the HHS Accounting Manual.

We believe that CDC has the responsibility to ensure that grantees have adequate systems in place to manage cash draw downs; however, we believe that it is DPM's responsibility to actually monitor cash drawn downs. No further action is required by CDC at this time.

Payroll Errors

In the previous audit, KPMG recommended that ATSDR personnel perform the supervisory procedures which have been developed to ensure credit hours are properly recorded and approved. Also, personnel should comply with the procedures in place relative to reviewing the time records for accuracy and completeness.

The PHS concurred with the need to comply with established procedures and stated they would issue a reminder to all supervisors concerning their responsibilities.

In our current review, we found this issue had recently been discussed at several of ATSDR's supervisory staff meetings. In our current payroll review, we identified no credit hour timekeeping errors.

Recording of Accruals

In the previous audit, KPMG recommended that the management of CDC develop procedures to record expenses when incurred as stated in the HHS Accounting Manual, section 3-60-10, *Timing of the Recognition of Accruals*. They also recommended that these procedures be discussed with the personnel responsible for accounting for and recording these expense transactions.

The PHS concurred with the need to accrue items upon receipt. In addition, PHS advised us that CDC is updating its automated receiving system to automatically record an accrual upon receipt.

We discussed this with CDC management and learned the update to the accounting system was part of a project entitled *Management of Materials and Supplies*. They estimate this project will be completed in approximately 3 years. Furthermore, CDC anticipates as portions of the project are completed, they will be available for use before the end of the 3 years. However, as this project is in the planning stages, no details were available concerning when the portion of the system addressing the recording of accruals would be on line. We will continue to follow up on this recommendation until corrective action is completed.

We would appreciate being advised within 60 days on the status of corrective actions taken or planned on each recommendation. Should you wish to discuss the issues raised by our review and recommendations, please call me or have your staff contact Michael R. Hill, Assistant Inspector General for Public Health Service Audits at (301) 443-3582. Please refer to CIN A-04-93-04518 in all correspondence relating to this report.

APPENDICES

SUPERFUND ACTIVITIES

FISCAL YEAR 1992

FINANCIAL STATEMENTS AND NOTES

UNAUDITED

Department of Health and Human Services/Public Health Service
 Agency for Toxic Substances and Disease Registry
STATEMENT OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 1992
 (In Millions)

ASSETS	1992
Financial Resources	
Fund balances with Treasury (Note 2)	\$. 8
Intragovernmental items, Federal	
Other	<u>1</u>
Total Financial Resources	\$ 9
Non-Financial Resources:	
Property, plant and equipment, Net (Note 3)	2
Other Trust Fund Authority, Net (Note 4)	<u>37</u>
Total Non-Financial Resources	\$ 39
 Total Assets	 <u>\$ 48</u>
 LIABILITIES	
Funded Liabilities	
Intragovernmental Liabilities	
Accounts payable, Federal.	\$ 3
Accrued payroll and benefits	1
Unfunded Liabilities	
Accrued unfunded annual leave	<u>1</u>
 Total Liabilities	 \$. 5
 NET POSITION	
Fund balances:	
Trust Fund Balance (Note 5)	\$ <u>43</u>
 Net Position	 \$ 43
 Total Liabilities and Net Position	 <u>\$ 48</u>

UNAUDITED

The accompanying notes are an integral part of these statements.

Department of Health and Human Services/Public Health Service
 Agency For Toxic Substances And Disease Registry
STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION
AS OF SEPTEMBER 30, 1992
 (In Millions)

	1992
REVENUES AND FINANCING SOURCES	
Appropriation Expensed	\$ 54
Total Revenue and Financing Sources	<u>\$ 54</u>
EXPENSES	
Program or Operating Expenses (Note 6)	\$ 54
Total Expenses	<u>\$ 54</u>
Excess of Revenues and Financing Sources Over Total Expenses Before Adjustments	\$ 0
Plus: Unfunded Expenses	1
Excess of Revenues and Financing Sources Over Total Expenses	<u>\$ 1</u>
Net Position, Ending Balance	<u>\$ 43</u>

UNAUDITED

The accompanying notes are an integral part of these statements.

4-8- 3 01 0

Department of Health and Human Services/Public Health Service
 Agency For Toxic Substances and Disease Registry
STATEMENT OF CASH FLOWS
 FOR THE PERIOD ENDED SEPTEMBER 30, 1992
 (In Millions)

	1992
CASH FLOWS FROM OPERATING ACTIVITIES	
Excess of Revenues and Financing Sources Over Total Expenses	<u>\$ 1</u>
Adjustments affecting Cash Flow:	
Appropriations Expensed	54
Decrease (increase) in Accounts Receivable	3
Increase (decrease) in Accounts Payable	<u>-4</u>
Total Adjustments	<u>\$ 53</u>
Net cash Provided by Operating Activities	- 52
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of Property, Plant and Equipment	<u>1</u>
Net Cash Provided (Used) by Non-Operating Activities	<u>1</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Appropriations (Current Warrants)	\$ 44
Net Appropriations	<u>\$ 44</u>
Net Cash Provided (Used) by Financing Activities	\$ 44
Net Cash Provided (Used) by operating, Non-operating and Financing Activities	- 7
Fund Balances With Treasury, Cash, and Foreign Currency, Beginning	<u>15</u>
Fund Balances with Treasury, Cash, and Foreign Currency, Ending	<u>\$ 8</u>

UNAUDITED

The accompanying notes are an integral part of these statements.

Department of Health and Human Services/Public Health Service
 Agency for Toxic Substances and Disease Registry
STATEMENT OF BUDGET AND ACTUAL EXPENSES
AS OF SEPTEMBER 30, 1992
 (In Millions)

PROGRAM NAME	RESOURCES	<u>BUDGET</u>	<u>ACTUAL</u>
		OBLIGATIONS DIRECT	EXPENSES
Hazardous Trust Fund (Superfund)	\$ 57	\$ 57	\$ 54
 <u>BUDGET RECONCILIATION:</u>			
TOTAL EXPENSES			\$ 54
ADD:			
CAPITAL ACQUISITIONS			1
LESS:			
UNFUNDED EXPENSES			-1
ACCRUED EXPENDITURES			\$ 54
LESS:			
REIMBURSEMENTS			0
ACCRUED EXPENDITURES, DIRECT			<u>\$ 54</u>

UNAUDITED

The accompanying notes are an integral part of these statements.

NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Agency for Toxic Substances and Disease Registry (ATSDR) is a component of the Public Health Service under the Department of Health and Human Services. The agency is responsible for conducting programs which prevent or mitigate adverse health effects caused by exposure to hazardous substances in the environment. For purposes of reporting to the U.S. Treasury, ATSDR's activity is combined with that of the Centers for Disease Control and Prevention (CDC). The ATSDR financial statements have been prepared in accordance with generally accepted accounting principles for federal agencies, Title 2 of the General Accounting Office's Policy and Procedures Manual. Any known differences between ATSDR's accounting standards and those contained in Title 2 have been disclosed if considered material.

The financial statements include ATSDR programs recorded in the Hazardous Substances Trust Fund, 7520X8145(09) and 7520M8145(09).

Basis of Accounting

Transactions are recorded on the accrual accounting basis, and the accounting system maintains both proprietary and budgetary accounts. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash.

Revenues and Other Financing Sources

Financing sources are provided through SF-1151 transfers from the Environmental Protection Agency (EPA) to ATSDR. Additional amounts are also received as reimbursements for services provided to other federal agencies through reimbursable authority found in CDC'S annual appropriation.

Appropriations expended for capital property and equipment are recognized as expenses when the asset is consumed in operations. However, for budget reporting the entire cost of the asset is recorded in the year the obligation is established to purchase the asset.

Property, Plant and Equipment

Equipment is capitalized at cost if the acquisition cost is \$5000.00 or more. Equipment costing less than \$5000.00 is expensed in the year acquired. ATSDR adjusts the general ledger accounts for property to agree with the property balances provided by the Materiel Management Branch.

Software is being developed that accounts for leased property and provides document by document reconciliation of the property records and the general ledger. The new software will address any requirement for the

capitalization or amortization of software costs. In addition, the new software will allow the recognition of gains or losses on the disposal of assets.

Fund Balance With Treasury

ATSDR does not maintain cash in commercial bank accounts. All cash receipts and disbursements are processed by the U.S. Treasury. General ledger cash balances are reconciled monthly with the balances reported by the U.S. Treasury.

Pension Plans

ATSDR employees participate in three different retirement plans. Civil service employees participate in the Civil Service Retirement System, or the Federal Employees Retirement System. Commissioned Corps personnel participate in the retirement plan for the Uniform Services. ATSDR does not account for pension plan assets, accumulated plan benefits or unfunded liabilities applicable to its employees. Accounting and reporting for this activity is performed by the Office of Personnel Management.

Accrued Annual, Sick and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced when the leave is taken. The balance in the accrued annual leave account is adjusted annually to reflect current pay rates for annual leave earned but not yet taken. Sick leave and other types of non-vested leave are expensed as taken.

Note 2. Fund Balance with Treasury

(In Millions)	
Fund Balance with Treasury:	Total
Trust Fund	\$ 8

Other Information: ATSDR is fully funded by obligational authority provided by the Environmental Protection Agency (EPA) through the Interagency Agreement process. The funds are provided from the Hazardous Trust Fund (Superfund) administered by the EPA. ATSDR does not have an accounting system and the U. S. Department of Treasury does not recognize ATSDR as a separate reporting entity. The appropriation number that identifies ATSDR funds in the CDC accounting system belongs to the Hazardous Trust Fund. ATSDR operates from a trust fund and does not have any balance of appropriated funds or revolving funds.

Note 3. Property, Plant and Equipment

	(In Millions)				
	Depreciation Method	Service Life	Acquisition Value	Accumulated Depreciation	Net Book Value
<u>Class of Fixed Assets</u>					
Equipment	Straight Line	11-15	\$ 3	\$ 1	\$ 2

ATSDR does not have an accounting system and contracts with the CDC to provide administrative and accounting services. The CDC uses the straight line method of calculating and accumulating depreciation on capitalized equipment and other accountable equipment. The total \$3 million of equipment agrees with the amount reported on the SF 220 and the standard general ledger.

Note 4. Other Trust Fund Authority

The Other Trust Fund Authority amount is the cumulative net between the interagency agreements and the amount of the SF 1151, Non-Expenditure Transfer documents since ATSDR's creation in 1986. ATSDR receives quarterly funding from the Hazardous Trust Fund through the outlay plan. This process entails a request for funding through EPA and Treasury and approval of the SF 1151. Since 1986, the ATSDR has received interagency agreements from EPA that budgeted \$37 million more than ATSDR has requested for performance of the Superfund mandated requirements. In four of the 10 years of operation, ATSDR requested and received more from the Treasury than was budgeted on the interagency agreement.

Note 5. Trust Fund Balances

	(In Millions)	Trust Funds
Unexpended Appropriations:		
Unobligated		\$ 1
Undelivered Orders		42
Totals		\$ 43

Other Information: ATSDR does not have its own accounting system or method for accounting for funds provided for performance of the mandated Superfund activities. ATSDR contracts with CDC to provide accounting and administrative services. The unobligated appropriations amount is cumulative from the beginning of ATSDR's performance period.

UNAUDITED

Note 6. Program or Operating Expenses

(In Millions)

1992

Operating Expenses by Object Classification:

Personal Services and Benefits	\$ 17
Travel and Transportation	1
Contractual Services	18
Equipment Not Capitalized	1
Grants, Subsidies and Contributions	<u>17</u>
Total Expenses by Object Class	<u>\$ 54</u>

Operating Expenses by Program:

Hazardous Trust Fund (Superfund)	<u>\$ 54</u>
Totals	<u>\$ 54</u>

Other Information: The ATSDR functions under the mandate of the Comprehensive Environmental Response, Compensation, Liability Act (CERCLA) of 1980 as amended. CERCLA established the Hazardous Trust Fund, which is commonly referred to as Superfund. The ATSDR is funded through an interagency agreement with the Environmental Protection Agency, administrator of the Hazardous Trust Fund. The ATSDR performs several activities under the single Superfund program umbrella. The purpose is to mitigate and report on the effects of hazardous substances on the public health.

UNAUDITED



MEMORANDUM

Rockville MD 20857

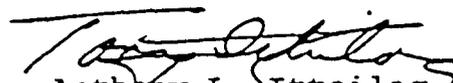
Date: MAY 31 1994

From: Deputy Assistant Secretary for Health Management Operations

Subject: PHS Comments on Office of Inspector General (OIG) Draft Reports "Superfund Financial Activities at the National Institute of Environmental Health Sciences for Fiscal Year 1992," A-04-93-04506; and "Superfund Financial Activities at the Agency for Toxic Substances and Disease Registry for Fiscal Year 1992," A-04-93-04518

To: Inspector General, OS

Attached are the PHS comments on the subject draft reports. We agree that procedures should be established to ensure the submission of single audit reports by all of the Department's grantees. Most grantees receive awards from more than one Department component and many receive awards from more than one Federal Department. As a result, in order to avoid situations where various Federal agencies are independently contacting recipient organizations and requesting the same audits, we believe such procedures should be at a central control point within the Federal Government. If that is not possible, we believe that this responsibility should be at the Office of the Secretary level so that communications with grantees are at least consolidated within the Department.


Anthony L. Itteilag

Attachment

PUBLIC HEALTH SERVICE (PHS) COMMENTS
ON THE OFFICE OF INSPECTOR GENERAL (OIG) DRAFT REPORTS
"SUPERFUND FINANCIAL ACTIVITIES AT THE AGENCY FOR TOXIC
SUBSTANCES AND DISEASE REGISTRY FOR FISCAL YEAR 1992,"

A-04-93-4518, APRIL 1994

AND

"SUPERFUND FINANCIAL ACTIVITIES AT THE NATIONAL INSTITUTE OF
ENVIRONMENTAL HEALTH SCIENCES FOR FISCAL YEAR 1992,"

A-04-93-04506, APRIL 1994

These draft reports provide the results of the OIG audits of the Superfund financial activities of the Agency for Toxic Substances and Disease Registry (ATSDR), and the National Institute for Environmental Health Sciences (NIEHS) for Fiscal Year 1992. The OIG audits found that ATSDR and NIEHS generally administered the Superfund monies in accordance with Superfund legislation. The auditors noted, however, that neither ATSDR nor NIEHS had established systems for tracking the transmittal of required audit reports by recipients of Superfund monies and recommended that such a system be established in each agency. The following sets forth the PHS comments on the auditors' recommendations.

OIG Recommendation

We recommend that PHS direct CDC and ATSDR, and NIH to:

- o establish procedures to ensure that all Superfund grantees submit audit reports; and
- o sanction grantees who are unwilling to have a proper audit conducted.

PHS Comments

We agree that procedures should be established to ensure that audit reports are submitted by all recipients of Federal funds, including Department of Health and Human Services (HHS) Superfund grantees subject to the provisions of Office of Management and Budget (OMB) Circulars A-128, "Single Audits of State and Local Governments," and A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions." Because many of these audits cover recipients which are funded by numerous Federal agencies, we also believe that the responsibility for these procedures should be placed at a central control point within the Federal Government. This would be necessary in order to avoid situations where various Federal agencies are independently contacting recipient organizations and requesting the same audits. Such independent contacts would not be consistent with the single audit concept which provides for a single Federal organization as the contact point.

We have discussed this issue recently in meetings involving staff from OIG, the Office of the Assistant Secretary for Management and Budget (OASMB), and OMB. Staff in OASMB and OMB have indicated that the Single Audit Clearinghouse operated by the Bureau of the Census will be given the responsibility for following-up to ensure that single audit reports are submitted by recipients required to have single audits conducted. Until this occurs, we believe there should be a single control point within the Office of the Secretary which would be responsible for ensuring that all HHS grantees submit the required audit reports.

However, in these particular instances, we will ask the grants offices in ATSDR and the Centers for Disease Control and Prevention (CDC) and the National Institutes of Health to work with the OIG's National External Audit Review Center (NEARC) to ensure that all Superfund grantees provide the required audit reports. Should any grantee refuse to submit an audit report, appropriate action will be taken, e.g., this action may include the sanctions provided for under the OMB Circulars.

OIG Recommendation

We recommend that PHS direct CDC and ATSDR to:

- o take immediate action to have all required audits performed, including the 16 grantees for which the NEARC did not receive audit reports.

PHS Comments

The CDC and ATSDR as well as NIEHS have already taken steps to ensure that their grantees are aware of the requirement to submit audits.

Regarding the 16 ATSDR grantees which OIG identified as not submitting the audits, we are pleased to state that all of the required audits have been performed. Of the 16 ATSDR grantees identified by OIG, 14 were State departments of health or departments of the environment and two were nonprofit organizations.

The OIG NEARC staff have stated to us that all 14 State entities submitted their single audit reports¹ to NEARC within the last 14 months. Thus far, the NEARC has processed and distributed about one-half of these reports to the OPDIVs. As

¹Twelve entities submitted State-wide audit reports; two entities submitted department-wide audit reports.

soon as NEARC completes its review of the remaining reports, it will release them to the OPDIVs. We are also pleased to report that NEARC staff advised us that five of the 14 States have already submitted their single audit reports for the fiscal year ended on June 30, 1993.

In addition, in the time since OIG completed its review, the grants office in ATSDR and CDC contacted the two non-State recipients and obtained copies of their audit reports. The grants office at ATSDR and CDC will forward the two reports to NEARC for processing.

Office of Audit Services note -- Comments have been deleted at this point because they pertain to material not included in this report.