

December 7, 2005



Financial Management

FY 2004 DoD Superfund
Transactions
(D-2006-035)

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Acronyms

CEFMS
EPA

Corps of Engineers Financial Management System
Environmental Protection Agency



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

December 7, 2005

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

SUBJECT: Audit Report on FY 2004 DoD Superfund Transactions
(Report No. D-2006-035)

We are providing this report for your information and use. No written response to this report was required, and none were received. Therefore, we are publishing this report in final form.

We appreciate the courtesies extended to the staff. Questions should be directed to James L. Kornides at (614) 751-1400, extension 211, or Mr. John K. Issel at (614) 751-1400, extension 212. See Appendix B for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

A handwritten signature in black ink, reading "Paul J. Granetto", is positioned above the printed name.

Paul J. Granetto, CPA
Assistant Inspector General
Defense Financial Auditing
Service

Office of the Inspector General of the Department of Defense

Report No. D-2006-035

(Project No. D2005-D000FJ-0142)

December 7, 2005

FY 2004 DoD Superfund Transactions

Executive Summary

Who Should Read This Report and Why? DoD personnel responsible for managing funds provided to DoD from the Superfund should read this report. It discusses the appropriateness of payments, obligations, and reimbursements or other uses of the Superfund by the U.S. Army Corps of Engineers.

Background. The Environmental Protection Agency manages the Superfund, which is a trust fund established by Congress 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 Environmental Protection Agency has contracted with the U.S. Army Corps of Engineers to manage the design and construction of cleanup sites and to perform other related tasks which are paid for with money from the Superfund. The Environmental Protection Agency issued program authority to the U.S. Army Corps of Engineers through interagency agreements.

Results. The U.S. Army Corps of Engineers properly recorded and supported the majority of the payments, obligations, and reimbursements or other uses of the Superfund that we reviewed. We audited 200 Superfund transactions that represented \$22.4 million of the \$82.1 million disbursed in FY 2004. Nine of the 200 transactions in our judgment sample were improperly coded during the data entry process. However, the district office that was responsible for reviewing the transactions detected the errors and the erroneous transactions were not charged to the Superfund. Management control programs, compliance with applicable laws and regulations, and criteria governing Superfund financial transactions were effective in that we identified no material weaknesses, legal or regulatory noncompliance, or expenditures not meeting criteria.

Management Comments. We provided a draft of this report on October 25, 2005. No written response was required, and none was received. Therefore, we are publishing this report in final form.

Table of Contents

Executive Summary	i
Background	1
Objective	1
Managers' Internal Control Program	2
Finding	
Superfund Financial Transactions	3
Appendixes	
A. Scope and Methodology	5
Prior Coverage	6
B. Report Distribution	7

Background

Superfund Responsibilities. The Comprehensive Environmental Response, Compensation, and Liability Act, commonly known as Superfund was enacted by Congress on December 11, 1980. This law created a tax on the chemical and petroleum industries. The tax money collected was then deposited in a trust fund to pay for cleaning up abandoned or uncontrolled hazardous waste sites.

The Superfund trust fund provides the resources the Environmental Protection Agency (EPA) needs to respond to hazardous waste emergencies and to clean up 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 EPA is the manager of the Superfund but the EPA has made agreements with the U.S. Army Corps of Engineers (the Corps) that call for the Corps to manage the design and implementation of remedial actions for cleanup of certain hazardous waste sites using money from the Superfund. During FY 2004, 33 Corps offices administered Superfund-related work.

The EPA issued authority to the Corps to manage Superfund money through interagency agreements. During FY 2004, the Corps recorded \$82.1 million in Superfund disbursements.

Legislative Requirements. This audit was performed under the provisions of section 311(a), Satisfaction of Requirements, Public Law 108-375, “Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005.” The Act requires a periodic review of uses of the Superfund by the Department of Defense Office of Inspector General.

Objective

The audit objective was to determine whether the Corps properly administered the Superfund resources it received. Specifically, we determined whether the Corps’ payments, obligations, reimbursements, or other uses of the Fund were supported and accurately recorded, and whether disbursements and their related obligation transactions were properly charged to Superfund projects during FY 2004. Also, we assessed the management control program, compliance with applicable laws and regulations, and criteria governing Superfund projects. See Appendix A for a discussion of the audit scope and methodology.

Managers' Internal Control Program

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 the Review of the Management Control Program. We reviewed the adequacy of the Corps' management controls over the accounting and recording of Superfund disbursements and related obligations. Specifically, we reviewed the management controls established to ensure that Superfund disbursements and related obligations were reliable and completely recorded and that proper documentation was maintained to support the recorded transactions. We did not identify material weaknesses, and, therefore, did not assess the adequacy of management's self-evaluation.

Adequacy of Management Controls. The Corps had established management controls over the disbursement and related obligations for 200 transactions at 10 sites reviewed. The disbursements and related obligations were in accordance with applicable laws and regulations. Management controls at the Corps sites visited were adequate in that no material management control weaknesses were identified.

Superfund Financial Transactions

The Corps properly recorded and supported the majority of the payments, obligations, and reimbursements or other uses of the Superfund that we reviewed. We audited 200 Superfund transactions that represented \$22.4 million of the \$82.1 million disbursed in FY 2004. Nine of the 200 transactions in our sample were improperly coded during the data entry process. However, the district office that was responsible for reviewing the transactions detected the errors and the erroneous transactions were not charged to the Superfund. Management control programs, compliance with applicable laws and regulations, and criteria governing Superfund financial transactions were effective in that we identified no material weaknesses, legal or regulatory noncompliance, or expenditures not meeting criteria.

Administration of the Superfund

Superfund Transactions. The Corps recorded all of its FY 2004 Superfund-related transactions in its centralized automated system, the Corps of Engineers Financial Management System (CEFMS). Each Corps site managing Superfund work retained the authorization and supporting documentation for its Superfund transactions. For FY 2004, CEFMS reflected 7,728 disbursement transactions, worth \$82.1 million, that were made from 33 Corps administrative sites using Superfund monies.

We judgmentally selected 200 disbursement and related obligation transactions, worth \$22.4 million, from the 10 administering sites that were responsible for the selected transactions. As part of the audit, we visited the 10 sites and obtained and audited the applicable authorizing and supporting documentation.

Disbursement and Obligation Transactions. For 191 of 200 transactions, the Corps properly charged the Superfund. The transactions were properly authorized and had adequate support documentation.

At the Engineer Research and Development Center (Waterways), Vicksburg, Mississippi, 9 transactions (totaling \$13,633.44) out of 20 transactions (totaling \$35,720.69) were miscoded in CEFMS. The errors were related to work the Corps' Baltimore District had requested from the Waterways research facility in support of a non-Superfund EPA project. The work was not Superfund-related but was funded through a Military Interdepartmental Purchase Request which was similar to the way Waterways receives Superfund work. Waterways personnel erroneously coded it as Superfund-related in CEFMS.

As the Baltimore District personnel began to process the transactions from Waterways, they recognized that Waterways had incorrectly charged the non-Superfund work to the Superfund in CEFMS. The error was detected as part of Baltimore District's internal control review process, and the transactions were corrected before any charges were sent to EPA. As a result, there was no effect on the Superfund.

In general, although miscoding of the nine transactions occurred, we concluded internal controls were adequate. We believe an appropriate level of internal control existed at the Baltimore District to verify that only Superfund work was charged to the Superfund and that adequate internal controls were in place to ensure the appropriateness of charges to the Superfund.

There were no other errors in the transactions we reviewed. The table summarizes results of our sample with data on the number of Corps transactions reviewed.

Results of Review				
<u>Location</u>	<u>Sample Size</u>	<u>Sample Errors</u>	<u>Sample Value</u>	<u>Error Value</u>
			<u>in thousands</u>	
Baltimore	20	0	\$ 2,427	\$ 0
New York	20	0	4,150	0
Philadelphia	20	0	3,800	0
New England	20	0	4,936	0
Seattle	20	0	885	0
Nashville	20	0	587	0
Jacksonville	20	0	2,046	0
Mobile	20	0	670	0
Los Angeles	20	0	2,883	0
Waterways	20	9	36	14
Total	200	9	\$22,420	\$14

Conclusion

We identified miscoded transactions, but the errors were all corrected by the Corps prior to charging the Superfund. The policies, procedures, and controls established by the Corps effectively managed the Superfund disbursement and obligation transactions we examined. We did not identify instances of noncompliance with the laws and regulations governing Superfund transactions. We did not identify indications of weaknesses in applying the criteria governing Superfund projects. This report contains no recommendations.

Appendix A. Scope and Methodology

The CEFMS database reflected 7,728 Superfund disbursement transactions, with a value of \$82.1 million, for FY 2004. The transactions were administered by 33 Corps sites. We judgmentally selected 200 disbursement transactions with related obligations, valued at \$22.4 million, which were administered at 10 Corps sites. We selected the 10 sites responsible for disbursing the higher amounts related to Superfund. We selected the 20 largest dollar value disbursements for each of the 10 selected sites. For each of the selected transactions, we obtained supporting documentation, such as contracts, contract modifications, interagency or interdistrict agreements, travel authorizations, purchase requests, receiving reports, contract invoices, and other appropriate documents. The documents were examined to determine that the documents supported the transactions and were properly authorized and recorded.

Superfund Disbursement Transactions and Sample Size			
<u>Location</u>	<u>Total Disbursement Transactions</u>	<u>Value of Transactions</u>	<u>Value of Sample Transactions</u>
		<u>in thousands</u>	
Baltimore	463	\$ 2,752	\$ 2,427
New York	511	8,811	4,150
Philadelphia	377	5,379	3,800
New England	1,003	13,877	4,936
Seattle	986	1,901	885
Nashville	79	920	587
Jacksonville	256	2,899	2,046
Mobile	99	683	670
Los Angeles	353	4,967	2,883
Waterways	138	67	36
Sample Total	4,265	\$42,256	\$22,420

We performed this audit from March 2005 through September 2005 in accordance with generally accepted government auditing standards.

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 the transactions reviewed. We did not find errors that would preclude the use of the computer-processed data to meet the audit objective.

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

Prior Coverage

During the last 5 years, the Department of Defense Inspector General (DoD IG) has issued two reports discussing Superfund financial transactions. Unrestricted DoD IG reports can be accessed at <http://www.dodig.osd.mil/audit/reports>.

DoD IG

DoD IG Report No. D-2001-174, "FY 2000 DoD Superfund Financial Transactions," August 16, 2001

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

Appendix B. Report Distribution

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House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

Team Members

The Office of the Deputy Inspector General for Auditing of the Department of Defense, Defense Financial Auditing Service Directorate, prepared this report. Personnel of the Office of the Inspector General of the Department of Defense who contributed to the report are listed below.

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