



United States  
General Accounting Office  
Washington, D.C. 20548

Accounting and Information  
Management Division

B-276645

July 30, 1997

The Honorable Jerry Lewis  
Chairman  
The Honorable Louis Stokes  
Ranking Minority Member  
Subcommittee on Veterans Affairs,  
Housing and Urban Development, and  
Independent Agencies  
Committee on Appropriations  
House of Representatives

Subject: Financial Management: Superfund Cost Analysis

On June 12, 1997, we briefed your staff on our study of the Environmental Protection Agency's (EPA) Superfund accounting system. This review was called for in House Report 104-628, which accompanied the Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Bill for fiscal year 1997. We had previously agreed with your staff that the objectives of our work were to determine the answers to three questions: (1) What types and amounts of overhead and direct expenses do EPA and the Department of Justice allocate or charge to Superfund? (2) Do those expenses support the program's objectives? (3) Are the expenses charged typical of the types of cleanup costs normally incurred by large petroleum or chemical companies?

To satisfy these objectives, we analyzed information on Superfund disbursements for fiscal year 1996, reviewed the EPA Inspector General (IG) and Department of Justice IG audits of those disbursements, and held discussions with petroleum and chemical industry representatives. We conducted our work from March 1997 to June 1997, primarily at EPA headquarters and Department of Justice headquarters in Washington, D.C., in accordance with generally accepted government auditing standards.

At our request, EPA aggregated fiscal year 1996 Superfund disbursements totaling about \$1.4 billion into five expense categories. As shown in slides 7 and 10 of our enclosure, nearly half of the total was for contractor cleanup and the balance for categories directly related to, or supporting, the cleanup. We did not independently verify the accuracy of the disbursements, but we noted

that EPA IG and Justice IG audits of those disbursements did not disclose any discrepancies related to the charges to Superfund.

For example, the EPA IG reviewed the appropriateness of the charges to Superfund as part of its annual financial audit (see slide 14). The EPA IG's work included statistical random samples of Superfund items separately selected at both the interim and final phases of testing. This testing did not disclose any discrepancies or questioned costs. Similarly, the Department of Justice IG's latest annual audit of Justice's Superfund billings did not identify any discrepancies or questioned costs. Based on the results of the IGs' work, the expenses allocated or charged appear to support the program's objectives.

The petroleum and chemical companies we contacted advised us that a pro rata share of administration and management costs are allocated to their cleanup activities, but they were reluctant to provide us access to their accounting records. Therefore, we were unable to assess whether EPA's expenses are typical of cleanup costs normally incurred by these companies. The companies did not identify any specific concerns with EPA's accounting practices (see slide 17). The only concerns mentioned related to other issues, such as the relative efficiency of federal versus private cleanup efforts (see slide 18).

As agreed with your staff, no further work relative to this request is warranted at this time.


We requested oral comments on a draft of this letter from officials at the Department of Justice and EPA. On July 17, 1997, the GAO Liaison at EPA advised us that EPA generally concurred with the draft. However, the EPA IG's office provided some technical comments, including clarifications on the scope of the EPA IG financial audit. We considered the comments and made changes as appropriate. On July 18, 1997, the GAO Liaison in Justice's Environment and Natural Resources Division told us that the Department of Justice concurred with the facts presented.

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We are sending copies of this letter to the Chairmen and Ranking Minority Members of the House and Senate Committees on Appropriations; the Administrator and the Inspector General of the Environmental Protection Agency; the Attorney General and the Inspector General of the Department of Justice; the Director of the Office of Management and Budget; and other interested parties. Copies will also be made available to others upon request.

B-276645

Enclosed is a copy of the briefing slides we presented at the June 12, 1997, meeting, amended to provide additional information requested by your staff. If you have any questions, please contact me on (202) 512-8341.

A handwritten signature in cursive script that reads "Linda M. Calbom".

Linda M. Calbom  
Director, Civil Audits

Enclosure

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GAO Accounting and Information  
Management Division

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**Superfund Cost Analysis**

Status Briefing for Subcommittee on VA,  
HUD, and Independent Agencies, House  
Committee on Appropriations  
June 12, 1997

As amended, July 1997

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## GAO Congressional Request

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- House Report 104-628 called for GAO to review the Superfund accounting system
- Analyses from perspectives of both a for-profit and a nonprofit business

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## GAO GAO Audit Objectives

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- What types and amounts of overhead and direct expenses do EPA and Justice allocate or charge to Superfund?
  - Do those expenses support the program's objectives?
  - Are the expenses charged typical of the types of cleanup costs normally incurred by large petroleum or chemical companies?
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## Work Performed

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- Obtained FY 1996 charges to Superfund by activity/action and object class codes.
  - Interviewed EPA/Justice officials and examined IG reports and supporting documents.
  - Interviewed petroleum and chemical company officials involved in cleanup as well as representatives at industry associations.
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## GAO Superfund Program

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- CERCLA authorized EPA to clean up the nation's most hazardous waste sites.
  - Provided EPA authority to take direct action or force responsible parties to respond.
  - Created a trust fund to pay for federal cleanups if responsible parties could not be located, were unwilling, or were unable to clean up sites, and for other authorized purposes.
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## GAO Primary Program Activities

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- Identify hazardous waste sites.
  - Removal actions (short-term cleanup response).
  - Remedial actions (long-term or permanent cleanup).
  - Ensure that responsible parties pay for the cleanup actions.
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## GAO Superfund Charges

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- **EPA Reported FY 1996 Total Disbursements \$1,412 million (unaudited)**
  - Contractor cleanup \$696 million
  - Directly related to cleanup \$159 million
  - General administration and support \$299 million
  - Enforcement \$204 million
  - R&D/laboratory analysis \$54 million
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## **GAO Directly Related to Cleanup (unaudited)**

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• Remedial support and management (EPA oversight of remediation)	\$53.5 million
• Removal support and management (EPA oversight of removal)	\$45.4 million
• Site assessment	\$43.1 million
• Remedial analysis	\$14.7 million
• Technical assistance grants	\$1.2 million
• Remedial action master plan	\$1.0 million

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# GAO General Administration and Support (unaudited)

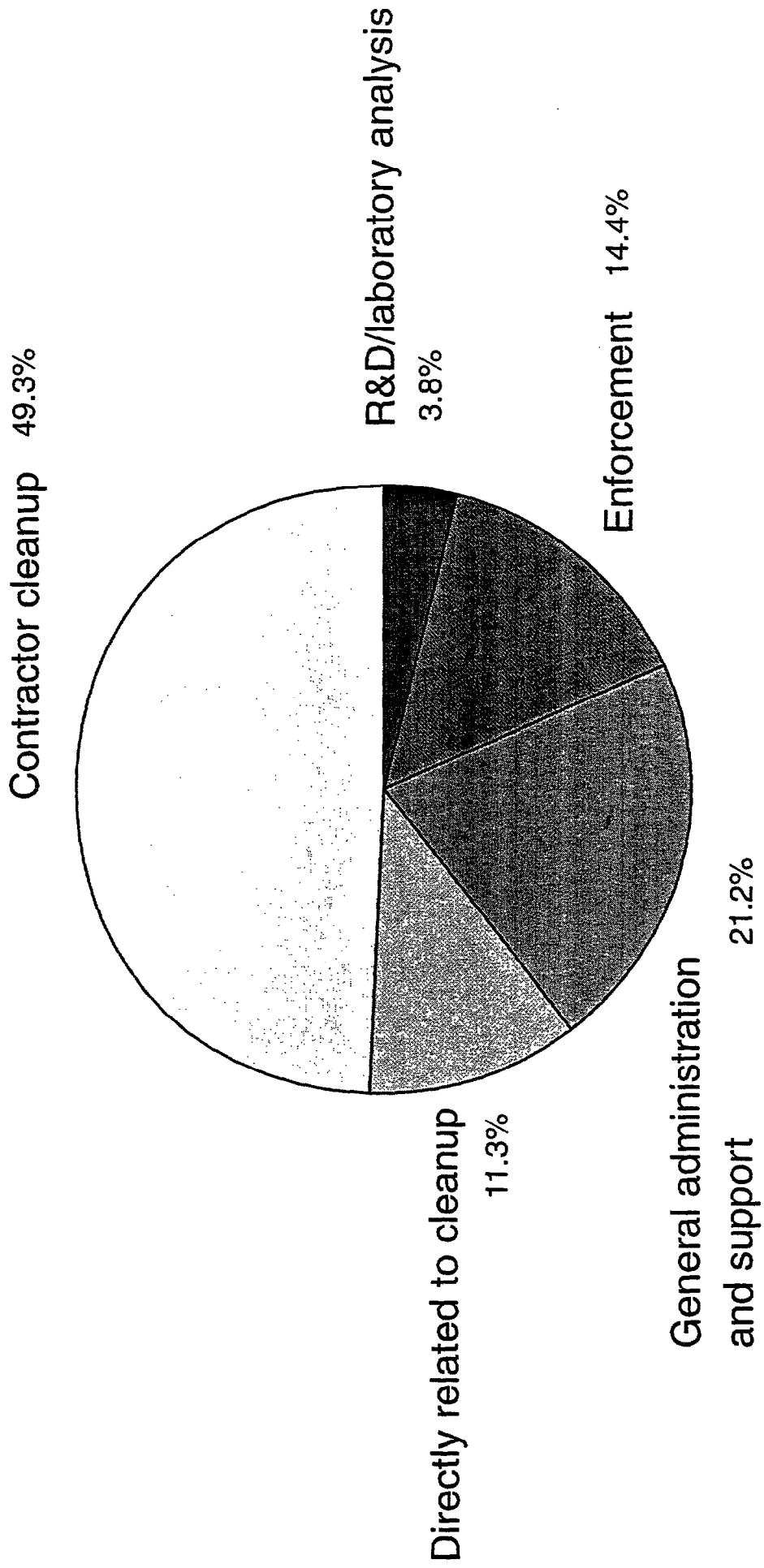
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- Interagency agreements and contracts \$153.3 million  
(includes contracts for accounting systems and guard services)
  - Personnel compensation and benefits \$88.6 million
  - Rent, communications, and utilities \$31.4 million
  - Grants and cooperative agreements \$17.8 million
  - Equipment \$4.6 million
  - Travel and transportation \$1.9 million
  - Supplies, materials, printing, and reproduction \$1.6 million
  - Insurance \$0.2 million
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# GAO Superfund Disbursements (unaudited)

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## GAO Superfund Charges

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- Full costs not charged to Superfund
  - Pension benefits
  - About \$75 million funded by other appropriations (includes agencywide administration and management support, such as the EPA Administrator's costs)
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## GAO Superfund Charges

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- Two types of support costs:
  - Items identified with a program are charged in full to benefiting program.
  - Items benefiting two or more programs are allocated to benefiting programs.
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## GAO Superfund Charges

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- Indirect costs generally allocated based on budgeted or actual full-time equivalents (FTEs).
  - Computers expensed and allocated based on FTEs.
  - On an exception basis:
    - motor pool and local travel allocated based on direct travel costs and
    - utility and building operating and maintenance expenses based on square feet of space.
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## GAO Superfund Charges

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- EPA IG reviewed appropriateness of charges to Superfund.
  - Statistical random sample of 137 Superfund items during interim testing and of 90 items during final testing.
  - No discrepancies noted; no costs questioned.
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## GAO Superfund Charges

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- Justice bills EPA based on direct costs plus overhead. (Overhead excludes agencywide administration and management support, such as the Attorney General's costs)
  - Justice separately bills other federal agencies for reimbursable expenses.
  - Justice IG annually reviews Superfund billings.
  - Reviews used to defend charges in a court of law.
  - No discrepancies noted.
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## GAO Industry Practices

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- Cleanup is a relatively small part of petroleum and chemical companies' efforts.
  - According to a February 1997 Chemical Manufacturers Association survey report, hazardous waste site cleanup costs are less than 1 percent of sales.
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## Industry Practices

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- Full share of administration and management costs allocated by applying overhead rates.
  - Industry officials were reluctant to provide GAO access to accounting records.
  - No specific concerns with EPA's accounting practices mentioned.
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- Industry concerns focused on the relative efficiency of federal versus private cleanup efforts.
  - Extent of oversight and monitoring.
  - Scope of cleanup efforts.
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