REPORT ON THE TREASURY BUREAU OF THE PUBLIC DEBT TRUST FUND MANAGEMENT BRANCH HAZARDOUS SUBSTANCE SUPERFUND TRUST FUND SCHEDULES FOR THE YEAR ENDED SEPTEMBER 30, 1999

OIG-00-040 FEBRUARY 7, 2000

Office of Inspector General

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United States Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

MEMORANDUM FOR VAN ZECK, COMMISSIONER
BUREAU OF THE PUBLIC DEBT

FROM: Dennis S. Schindel
Assistant Inspector General for Audit

SUBJECT: Report on the Treasury Bureau of the Public Debt Trust Fund Management Branch Schedule of Assets and Liabilities and Schedule of Activity for the Hazardous Substance Superfund Trust Fund for the Year Ended September 30, 1999

I am pleased to transmit the attached audit report related to the Fiscal Year (FY) 1999 schedule of assets and liabilities and schedule of activity (the Schedules) of the Hazardous Substance Superfund Trust Fund (the Trust Fund). These Schedules relate solely to the functions performed by the Bureau of the Public Debt (BPD) Trust Fund Management Branch (TFMB) as custodian of the Trust Fund monies and investments.

The trustee program agency is responsible for administering, regulating, and monitoring the program activities funded by the Trust Fund. The trustee program agency also makes all decisions regarding dispositions from the Trust Fund. The TFMB provides accounting, investment, and financial reporting services to the Trust Fund. The TFMB also records receipts, disbursements, and transfers related to the Trust Fund based on information submitted by the Office of Tax Analysis, the Internal Revenue Service, and other Treasury bureaus and offices, and the Environmental Protection Agency. As such, the Schedules do not represent a complete accounting for all assets, liabilities, and sources and uses of funds of the Trust Fund.

The following reports were issued by KPMG LLP, an independent public accountant (IPA) related to the FY 1999 schedule of assets and liabilities and schedule of activity of the Trust Fund:

- Independent Auditors' Report on the Schedules;
- Independent Auditors' Report on Internal Control over Financial Reporting; and
- Independent Auditors' Report on Compliance with Laws and Regulations.

The IPA rendered an unqualified opinion on the FY 1999 Schedules of the Trust Fund. The IPA's report on internal controls contained no reportable conditions related to the internal

controls for the Trust Fund. The IPA's report on compliance with laws and regulations contained one instance of noncompliance relating to the Office of Management and Budget (OMB) Circular A-127 requiring federal entities to use an integrated financial management system. We understand that BPD is implementing integrated systems for FY 2000.

The IPA also issued a management letter dated December 24, 1999, discussing various issues that were identified during the audit, but are not required to be included in the audit reports.

As in the prior year, my staff monitored the conduct of this audit and performed a quality control review of the IPA's working papers. The audit was performed in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, and met the requirements of OMB Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*, as amended.

Should you have any questions, please contact me at (202) 927-5400, or a member of your staff may contact William H. Pugh, Deputy Assistant Inspector General for Audit (Financial Management), at (202) 927-5430.

Attachment

cc: Gary Gensler
Under Secretary for Domestic Finance

Donald V. Hammond
Fiscal Assistant Secretary

U.S. Department of the Treasury
Bureau of the Public Debt
Division of Federal Investments
Trust Fund Management Branch

Hazardous Substance Superfund Trust Fund
Schedules
September 30, 1999

U.S. Department of the Treasury
Hazardous Substance Superfund Trust Fund

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A. Independent Auditors' Report on the Schedules

2001 M Street, N.W.
Washington, D.C. 20036

Independent Auditors' Report on the Schedules

The Inspector General, U.S. Department of the Treasury,
Commissioner of the Bureau of the Public Debt, and
Administrator of the Environmental Protection Agency:

We have audited the accompanying schedule of assets and liabilities of the Hazardous Substance Superfund Trust Fund (Trust Fund), administered by the Bureau of the Public Debt (BPD) of the U.S. Department of the Treasury, as of September 30, 1999, and the related schedule of activity for the year then ended. These schedules are the responsibility of the BPD's management. Our responsibility is to express an opinion on these schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements.* Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the schedules. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the schedules referred to above present fairly, in all material respects, the assets, liabilities and related activity administered by BPD for the Hazardous Substance Superfund Trust Fund as of September 30, 1999, and for the year then ended, in conformity with generally accepted accounting principles.

With respect to the BPD's administration of the Trust Fund, and in accordance with *Government Auditing Standards,* we have also issued reports dated December 24, 1999, on our consideration of BPD's internal control over Trust Fund financial reporting and our tests of compliance with certain provisions of laws and regulations applicable to BPD's administration of the Trust Fund.

KPMG LLP

December 24, 1999

KPMG LLP. KPMG LLP, a U.S. limited liability partnership, is a member of KPMG International, a Swiss association.

B. Independent Auditors' Report on Internal Control over Financial Reporting

2001 M Street, N.W.
Washington, D.C. 20036

Independent Auditors' Report on Internal Control over Financial Reporting

The Inspector General, U.S. Department of the Treasury, and
Commissioner of the Bureau of the Public Debt:

We have audited the schedules of assets and liabilities and the related schedules of activity (the Schedules) prepared by the Bureau of the Public Debt (BPD) of the U.S. Department of the Treasury, as of and for the year ended September 30, 1999 for the following trust fund activity administered by BPD, and have issued our reports thereon dated December 24, 1999:

- Airport and Airway Trust Fund
- Aquatic Resources Trust Fund
- Federal Hospital Insurance Trust Fund
- Federal Supplementary Medical Insurance Trust Fund
- Harbor Maintenance Trust Fund
- Hazardous Substance Superfund Trust Fund
- Highway Trust Fund
- Inland Waterway Trust Fund
- Leaking Underground Storage Tank Trust Fund
- Oil Spill Liability Trust Fund

We conducted our audits in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements.*

KPMG LLP KPMG LLP, a U.S. limited liability partnership, is
a member of KPMG International, a Swiss association.

BPD's management is responsible for establishing and maintaining internal controls over financial reporting related to the administration of the trust funds. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control over financial reporting, as they relate to the administration of the trust funds, are to provide BPD and program agency management with reasonable, but not absolute, assurance that (1) transactions are executed in accordance with laws and regulations that could have a direct and material effect on the determination of the schedule amounts, and certain other laws and regulations as applicable to the administration of the trust funds; (2) assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (3) transactions are properly recorded, processed, and summarized to permit the preparation of the schedules in accordance with generally accepted accounting principles.

Because of inherent limitations in internal control over financial reporting, misstatements, losses or noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audits, we considered internal control over financial reporting related to the administration of the trust funds by obtaining an understanding of the internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinions on the schedules. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 98-08. We did not test all internal controls relevant to operating objectives broadly defined by the Federal Manager's Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audits was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal controls.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting relating to the trust funds that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. Material weaknesses are conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the schedules being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the trust funds' internal control and its operation that we consider to be material weaknesses as defined above.

However, we noted other matters involving internal controls over financial reporting and their operation for the trust funds that we have reported to the management of the BPD in a separate letter dated December 24, 1999.

This report is intended solely for the information and use of the BPD's management, the U.S. Department of the Treasury Office of the Inspector General, program agencies, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 24, 1999

C. Independent Auditors' Report on Compliance with Laws and Regulations

2001 M. Street, N.W.
Washington, DC 20036

Independent Auditors' Report on Compliance with Laws and Regulations

The Inspector General, U.S. Department of the Treasury, and
Commissioner of the Bureau of the Public Debt:

We have audited the schedules of assets and liabilities and the related schedules of activity (the Schedules) prepared by the Bureau of the Public Debt (BPD) of the U.S. Department of the Treasury, as of and for the year ended September 30, 1999 for the following trust fund activity administered by BPD, and have issued our reports thereon dated December 24, 1999:

- Airport and Airway Trust Fund
- Aquatic Resources Trust Fund
- Federal Hospital Insurance Trust Fund
- Federal Supplementary Medical Insurance Trust Fund
- Harbor Maintenance Trust Fund
- Hazardous Substance Superfund Trust Fund
- Highway Trust Fund
- Inland Waterway Trust Fund
- Leaking Underground Storage Tank Trust Fund
- Oil Spill Liability Trust Fund

We conducted our audits in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements.*

KPMG LLP. KPMG LLP, a U.S. limited liability partnership, is
a member of KPMG International, a Swiss association.

The management of the BPD is responsible for complying with laws and regulations applicable to the administration of the trust funds. As part of obtaining reasonable assurance about whether the information included in the schedules referred to above is free of material misstatement, we performed tests of BPD's compliance with certain provisions of laws and regulations related to the administration of the trust funds, noncompliance with which could have a direct and material effect on the determination of the schedule amounts, and certain other laws and regulations specified in OMB Bulletin No. 98-08, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to BPD's administration of the trust funds. However, providing an opinion on compliance with applicable provisions of laws and regulations was not an objective of our audits, and, accordingly, we do not express such an opinion.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph, exclusive of FFMIA, disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 98-08.

Under FFMIA, we are required to report whether the financial management systems used to administer the trust funds substantially comply with (1) Federal financial management systems requirements, (2) Federal accounting standards, and (3) the United States Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance for FFMIA included in Appendix D of OMB Bulletin No. 98-08.

The results of our tests disclosed an instance that is described in the accompanying Exhibit, where BPD's financial management systems did not substantially comply with the requirements discussed in the preceding paragraph.

This report is intended solely for the information and use of the BPD's management, the U.S. Department of the Treasury Office of the Inspector General, program agencies, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 24, 1999

Exhibit

Trust Funds Administered by the Bureau of the Public Debt

Noncompliance with Laws and Regulations

September 30, 1999

A-127 Financial Management Systems

Comment

OMB Circular A-127 requires federal entities to use an integrated financial management system that eliminates unnecessary duplication of transaction entry. BPD is responsible for administering the trust funds' financial systems. We noted that BPD records receipt, investment, and disposition transactions on a computer spreadsheet, known as a cash sheet, and records the transactions again in the general ledger. Because using the general ledger is a cumbersome tool for monitoring investment activity, BPD uses the cash sheet to ensure funds are invested timely.

Recommendation

We recommend that BPD complete its current process of implementing integrated systems that will eliminate the duplication of transaction entry and take appropriate action by September 30, 2000.

D. Schedules of the
Hazardous Substance Superfund Trust Fund

U.S. Department of the Treasury
Bureau of the Public Debt
Hazardous Substance Superfund Trust Fund
Schedule of Assets and Liabilities
As of September 30, 1999

ASSETS	
Fund Balance with Treasury-SGL 1010	$1,262,850
Investments, Net-SGL 1610, 1611 and 1613 (Note 2)	4,417,885,922
Total Assets	**$4,419,148,772**
LIABILITIES	
Program Agency Equity - SGL 3310 (Note 3)	**$4,419,148,772**
Total Liabilities	**$4,419,148,772**

The accompanying notes are an integral part of the schedules.

U.S. Department of the Treasury
Bureau of the Public Debt
Hazardous Substance Superfund Trust Fund
Schedule of Activity
For the Year Ended September 30, 1999

REVENUES	
Tax Revenues - SGL 5800	
Tax on Certain Chemicals	$12,830,000
Corporate Environmental Tax	10,249,026
Tax on Crude Oil and Petroleum Products	(2,060,000)
Total Tax Revenues	**$21,019,026**
Investment Revenue - SGL 5310, 7110 and 7210	
Interest on Investments	$220,562,987
Gain on Redemption of Securities	205,766
Loss on Redemption of Securities	(683,121)
Total Investment Revenue	**$220,085,632**
Other Revenue - SGL 5320, 5720 and 5900	
EPA Appropriation	$325,000,000
Fines and Penalties	3,648,087
Cost Recoveries	319,746,289
Total Other Revenue	**$648,394,376**
Total Revenues	**$889,499,034**
DISPOSITION OF REVENUES - SGL 5730	
Transfer to Environmental Protection Agency	$1,503,398,242
Transfer to Environmental Protection Agency - Inspector General	42,451,410
Total Disposition of Revenues	**$1,545,849,652**
Net Decrease in Program Agency Equity (Note 3)	**($656,350,618)**

The accompanying notes are an integral part of the schedules.

U.S. Department of the Treasury
Hazardous Substance Superfund Trust Fund
Notes to the Schedules
September 30, 1999

Note 1 - Summary of Significant Accounting Policies

A. Reporting Entity

The accompanying schedules of assets and liabilities and related activities pertain to the aspects of the Hazardous Substance Superfund Trust Fund (Trust Fund) that are serviced by the Trust Fund Management Branch (TFMB) of the Bureau of the Public Debt (BPD) of the Department of the Treasury (Treasury). The Trust Fund was created by and is maintained in accordance with 26 USC Chapter 98, Subchapter A, Sec. 9507 of the Internal Revenue Code, as amended.

TFMB acts as a service organization which processes receipts, disbursements and transfers related to the Trust Fund based upon information provided by the Internal Revenue Service (IRS), the Office of Tax Analysis (OTA), the Environmental Protection Agency (EPA), and other Treasury bureaus. As part of its functions, BPD also manages the investments, maintains related accounting records and supporting documentation, and reports financial activity. As such, these schedules do not include information regarding the ultimate disposition of amounts transferred from the trust fund to the program agency.

The EPA is responsible for administering, regulating, and monitoring the program activities funded by the Trust Fund. This program agency makes all decisions regarding dispositions from the Trust Fund. The financial activity reported in these schedules is limited to the activities performed by TFMB.

B. Basis of Presentation

The schedules have been prepared to report the assets and liabilities of the Trust Fund under the function performed by TFMB and the related activity, in accordance with applicable financial presentation guidelines to the extent those guidelines apply to the limited activities performed by TFMB.

C. Basis of Accounting

Transactions during the year are recorded using the cash basis of accounting. At year-end, adjustments are made to record revenue and expense accruals in accordance with generally accepted accounting principles applicable to Federal Government entities.

Hazardous Substance Superfund Trust Fund
Notes to the Schedules

Note 1 - Summary of Significant Accounting Policies (continued)

D. Trust Fund Activity

Revenue activity recorded in the Trust Fund consists primarily of interest cost recoveries, fines and penalties collected and deposited into the Trust Fund by the EPA, in accordance with Title 26, Subtitle I, Chapter 98, Subchapter A, Sec. 9507 (b) of the Internal Revenue Code. In addition, transfers or repayments are made for the difference between the OTA estimate and actual tax collections certified by the IRS.

The Trust Fund tax authority expired on 1/1/96 and the corporate environmental income tax expired on 1/1/97. Consequently, the fund is not currently receiving any new tax collections. The revenues included on the schedule of activity represent delinquent taxes received and other tax adjustments.

Dispositions from the Trust Fund, are made in accordance with Title 26, Subtitle I, Chapter 98, Subchapter A, Sec, 9507 (c) of the Internal Revenue Code primarily to the EPA which is responsible for the ultimate disposition of such funds, to pay obligations relating to cleaning up hazardous substance emergencies and abandoned uncontrolled hazardous waste sites and other expenditures as defined by law.

E. Fund Balance with Treasury

The Trust Fund does not maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the Treasury. The Fund Balance with Treasury represents the net revenue, disposition of revenue, and investment activity.

F. Investments

Pursuant to 26 USC 9602, the Secretary of the Treasury shall invest such portion of the Trust Fund as is not necessary to meet current withdrawals. The Fiscal Assistant Secretary of Treasury has authorized the issuance of market-based (MK) securities to the Trust Fund.

These non-marketable MK securities are Treasury securities, that are not traded on any securities exchange but mirror the prices of marketable securities with similar terms. The non-marketable MK securities are issued and redeemed by the BPD. Securities are acquired and held in the name of the Secretary of the Treasury for the Trust Fund. The interest on and proceeds from the sale or redemption of any security held for the Trust Fund are credited to the Trust Fund.

The TFMB determines the type of security and related maturity date that should be purchased based primarily on the program agencies' estimated future expenditures.

Hazardous Substance Superfund Trust Fund
Notes to the Schedules

Note 1 - Summary of Significant Accounting Policies (continued)

G. Investment Policy and Valuation Methods for Investments

TFMB follows Treasury fiscal investment policy guidelines. These guidelines allow TFMB to invest all excess Trust Fund collections and liquidate securities, as funds are needed. Investments are selected for liquidation based on the earliest maturity date, lowest interest rate, first-in first-out (FIFO) method. The intent of the trust fund manager is to hold all investments to maturity. Investments are valued at cost and adjusted for amortization of premiums and discounts, if applicable. The premiums and discounts are recognized as adjustments to interest income, utilizing the straight-line method for these short term securities (MK Bills).

Note 2 - Investments

Investments at September 30, 1999, were non-marketable market based intragovernmental securities as follows:

	Cost	Unamortized Discount	Net Investments	Market Value
One-day Certificates	$278,497,000	N/A	$ 278,497,000	$ 278,497,000
Bills	4,314,686,000	($175,297,078)	4,139,388,922	4,140,015,655
Total	$4,593,183,000	($175,297,078)	$4,417,885,922	$4,418,512,655

The market value for investments was calculated using rates for September 30, 1999, as published in the *Treasury Quote Sheets*. The net unrealized gain on the securities was $626,733 at September 30, 1999.

Note 3- Change in Program Agency Equity

Change in program agency equity for the year ended September 30, 1999, is:

Balance, beginning of year	$5,075,499,390
Decrease in balance	(656,350,618)
Balance, end of year	$4,419,148,772

Note 4 - Contingencies

In the opinion of BPD management and legal counsel, there are no known administrative proceedings, legal actions, or claims that will result in a decision that will materially affect the assets, liabilities or activity of the Trust Fund.

Note 5 - Related Parties

TFMB, on behalf of the Secretary of the Treasury, compiles amounts deposited into the Trust Fund, invests receipts in Treasury securities, redeems securities and transfers funds to the program agency, maintains accounting records for all receipts and disbursements of the Trust Fund, and reports Trust Fund financial activity to program agency and other interested parties. The IRS, OTA, and EPA determine the amounts to be deposited into the Trust Fund. The program agency determines the disposition of revenues.