

# **EXECUTIVE SUMMARY**

## **INTRODUCTION**

We performed this audit in accordance with the Government Management Reform Act which requires the Environmental Protection Agency (EPA or the Agency) prepare, and the Office of Inspector General (OIG) audit the Agency's financial statements each year. The requirement for audited financial statements was enacted to help bring about improvements in agencies' financial management practices, systems and controls so that timely, reliable information is available for managing Federal programs.

## **OBJECTIVES**

Our objectives were to determine whether:

- EPA's financial statements are fairly presented,
- information presented in the EPA Overview section of the financial statements is consistent with the principal financial statements,
- adequate internal controls related to the financial statements are in place, and
- the Agency complied with applicable laws and regulations that would materially affect the financial statements.

## **RESULTS IN BRIEF**

During fiscal 1997, EPA continued to make improvements in its financial reporting systems and practices. We also worked jointly with the Agency to improve the accuracy and reliability of the Agency's financial statements. As a result, we were able to issue an unqualified or clean opinion on EPA's Consolidated Agency-wide financial statements. This is a significant accomplishment for the Agency. Now that the Agency has achieved its goal of obtaining a clean opinion on its Agency-wide financial statements, the next significant challenge facing the Agency is the development of cost accounting information for EPA managers to use in carrying out their environmental programs.

## **Opinion on EPA's Fiscal 1997 Financial Statements**

Following are our opinions on EPA's fiscal 1997 financial statements. In addition to presenting information at the Consolidated Agency-wide level, EPA's financial statements also present

information for the following three components -- the Superfund Trust Fund, the State and Tribal Assistance Grants Appropriation and All Other Appropriated Funds.

**Consolidating Statement of Financial Position.** The Consolidating Statement of Financial Position fairly presents the financial position of the Superfund Trust Fund, the State and Tribal Assistance Grants Appropriation, All Other Appropriated Funds and EPA as a whole as of September 30, 1997.

**Consolidating Statement of Operations and Changes in Net Position.** The Consolidating Statement of Operations and Changes in Net Position fairly presents the results of operations for the State and Tribal Assistance Grants Appropriation, All Other Appropriated Funds and EPA as a whole for the fiscal year ended September 30, 1997. Material errors in one region's accounting for its unbilled Superfund oversight costs prevented us from being able to determine if the fiscal 1997 Superfund Trust Fund beginning balance for unbilled oversight costs was fairly presented. The beginning balance for unbilled oversight costs affects fiscal 1997 revenue. Therefore, except for the affects, if any, of adjustments that might have been necessary to correct the revenue reported, the Consolidating Statement of Operations and Changes in Net Position fairly presents the fiscal 1997 results of operations for the Superfund Trust Fund.

## **Review of the Agency's Overview**

We did not identify any material inconsistencies between the information presented in the Overview and in the financial statements. However, we did not perform sufficient audit work to express an opinion on the Overview.

## **Evaluation of Internal Controls**

### **Material Weakness**

Material weaknesses are situations where internal controls do not reduce to a relatively low level, the risk that errors or irregularities in amounts material to the audited financial statements may occur and not be detected in a timely manner by employees in the normal course of performing their assigned functions. In evaluating the Agency's internal controls, we identified one material weakness. This weakness involves the accounting for unbilled Superfund oversight costs. The Agency incurs these oversight costs to monitor cleanups of hazardous waste sites. They are recoverable from Potentially Responsible Parties based on the terms and conditions of Consent Decrees or Orders. Regional personnel must estimate the amount of unbilled oversight costs that exist as of the end of the fiscal year, so they can be included in the financial statements.

Two of the six regions we audited encountered difficulties in estimating their unbilled oversight costs. Based on the concerns we raised, the Agency performed additional work in these two regions to revise the estimate of unbilled oversight costs. The results of our supplemental audit work still found material errors in one region's recalculated beginning balance. We believe the majority of the difficulties encountered by Agency personnel in developing an estimate of unbilled

oversight costs were related to inadequate tracking of Superfund sites. Substantial resources were invested to manually generate an estimate since most of the necessary data was not readily available. The obstacles encountered in estimating the unbilled oversight costs also make billing of these costs a formidable task. The Agency estimated that as of the end of fiscal 1997, it had \$162 million of unbilled oversight costs.

### Reportable Conditions

Reportable conditions are internal control weaknesses that could adversely affect EPA's ability to ensure: (1) obligations and costs are in compliance with applicable laws; (2) funds, property, and other assets are safeguarded against unauthorized use or disposition; and (3) transactions are properly recorded to permit the preparation of reliable financial statements. We identified reportable conditions in the following areas: (1) managing accounts receivable, (2) accounting for capitalized property, (3) performing account analysis, (4) developing grant accrual estimates, (5) approving interagency agreement invoices, (6) identifying, tracking and reporting EPA's environmental liability, (7) recording Superfund State Contract revenue, (8) documenting automated controls within the Agency's accounting system, and (9) implementing adequate physical and environmental information systems general controls.

### **Tests of Compliance with Laws and Regulations**

We did not identify any instances of noncompliance with laws and regulations that would result in material misstatements to the audited financial statements. There are a number of ongoing investigations involving EPA's grantees and contractors which could reveal violations of laws and regulations, but a determination about these cases has not been made.

The Federal Financial Management Improvement Act (FFMIA) requires that, as a part of our annual financial statement audits, we determine whether EPA's financial management systems substantially comply with Federal financial management system requirements, applicable accounting standards, and the Standard General Ledger at the transaction level. In addition to the previously reported material weakness concerning accounting for Superfund oversight costs, we also identified the following instances of noncompliance with these requirements.

- OMB Year 2000 Requirements for Financial Systems Activities - The Agency's Core Financial Systems and the EPA Payroll and Personnel System (EPAYS) did not have required management controls, including approved formal decision papers and system plans, to provide reasonable assurance that Year 2000 activities will be completed before the systems are subject to failure;
- Year 2000 Maintenance Activities for Financial Systems - Maintenance projects for Year 2000 fixes exceeded dollar thresholds without obtaining required management approvals;
- Financial Systems Security (also reported as a material weakness in EPA's fiscal 1997 Integrity Act Report) - As of September 30, 1997, the Agency's Core Financial Systems and EPAYS did not have application security plans required by OMB Circular A-130, Appendix III;

- Financial Systems Inventory Data - There were no assurances that the fiscal 1996 financial systems annual inventory data, required by OMB Circulars A-127 and A-11 was consistent, comparable and accurate; and,

- Annual Update of CFO Financial Management Report and Five Year Plan - Significant system changes in the financial systems inventory were omitted from the annual update to the CFO Financial Management Report and Five Year Plan 1994 - 1999, dated October 1996. OMB Circular A-127 requires an annual update of the Five Year Plan.

Our audit also disclosed that EPA is not complying with appropriation law when disbursing grants funded from more than one appropriation. Disbursements for these grants are made using the oldest available funding/appropriation first which may or may not be the appropriation that benefitted from the work performed. Thus, EPA is not complying with Title 31 U.S.C. 1301 which requires EPA match its disbursements to the benefitting appropriation. This instance of noncompliance did not result in a material misstatement of EPA's financial statements.

## **RECOMMENDATIONS**

We are recommending the Acting Chief Financial Officer take the following corrective actions to improve internal controls in the areas where we identified weaknesses and noncompliance:

- develop a plan with goals and milestones that will ensure all Superfund oversight billings are current by the end of fiscal 1998;
- provide detailed training, conduct site visits to regional finance offices, and develop additional procedures that address those areas of accounting for accounts receivable where we identified problems;
- work with the Assistant Administrator for Enforcement and Compliance Assurance to implement guidance that will ensure Offices of Regional Counsel and program offices timely provide financial management offices with the supporting documents they need to record and write off accounts receivable;
- continue to work with the Acting Assistant Administrator for Administration and Resources Management to strengthen controls for recording property in the Agency's accounting system;
- continue to provide training on and emphasize the importance of analytical reviews, and timely provide general ledger account information needed to complete the reviews;
- develop guidance for determining the grant accrual amounts for future financial statements;

- work with the Assistant Administrator for Enforcement and Compliance Assurance, Acting Assistant Administrator for Administration and Resources Management, and the Office of General Counsel to jointly develop policies and procedures for tracking and annually reporting the Agency's environmental liability;
- continue working with finance officials to further their understanding of how to account for revenue on Superfund State Contracts;
- develop a remediation plan which includes resources, remedies and intermediate target dates to bring the Agency into substantial compliance with FFMIA requirements; and
- in coordination with the Acting Assistant Administrator for Administration and Resources Management, finalize and implement guidance for awarding and disbursing multiple-funded grants that complies with Title 31 U.S.C. 1301.

In some cases, we are not making recommendations for corrective action because prior audit recommendations, when implemented, should correct the weaknesses. Attachment 4 contains a current status of corrective actions underway or completed on these prior audit recommendations.

## **AGENCY COMMENTS AND OUR EVALUATION**

In a memorandum dated February 20, 1998, the Acting Chief Financial Officer responded to our draft report. In the response, she agreed that continued improvement is needed in many of the areas we reported, but indicated that her office believes some of the issues we identified as reportable conditions should not be included in that category. She also indicated that our offices need to continue to work together to resolve the concerns related to unbilled Superfund oversight costs. Regarding FFMIA compliance, she stated that her office continues to believe they are in substantial compliance with the requirements of the Act. The Agency's complete response is included as Appendix II to this report.

We agree that our offices need to work together to bring about the necessary improvements in the Agency's accounting for and billing of Superfund oversight costs. We look forward to working with the Agency to bring about improvements in this area, as well as the other areas where we noted weaknesses. We have not changed the classification of any of the weaknesses we reported, nor have we changed our conclusion about the Agency's noncompliance with FFMIA. The rationale for our conclusions is included in the appropriate sections of this report.

---

This Page Intentionally Left Blank

---

# TABLE OF CONTENTS

	Page
EXECUTIVE SUMMARY .....	i
INTRODUCTION .....	i
OBJECTIVES .....	i
RESULTS IN BRIEF .....	i
RECOMMENDATIONS....	iv
AGENCY COMMENTS AND OUR EVALUATION....	v
ABBREVIATIONS	
INTRODUCTION .....	1
PURPOSE .....	1
BACKGROUND .....	1
PRIOR AUDIT COVERAGE .....	2
INSPECTOR GENERAL'S REPORT ON EPA'S FISCAL 1997 AND 1996	
FINANCIAL STATEMENTS .....	4
OPINION ON EPA'S FISCAL 1997 FINANCIAL STATEMENTS .....	5
OPINION ON EPA'S FISCAL 1996 FINANCIAL STATEMENTS .....	5
OVERVIEW SECTION OF THE FINANCIAL STATEMENTS .....	6
EVALUATION OF INTERNAL CONTROLS .....	6
TESTS OF COMPLIANCE WITH LAWS AND REGULATIONS .....	11
RESPONSIBILITIES AND METHODOLOGY .....	14
EPA MANAGEMENT RESPONSIBILITIES .....	14
OIG RESPONSIBILITIES .....	14
AUDIT METHODOLOGY .....	14
ATTACHMENT 1 - MATERIAL WEAKNESS	
ATTACHMENT 2 - REPORTABLE CONDITIONS	
ATTACHMENT 3 - COMPLIANCE WITH LAWS AND REGULATIONS	
ATTACHMENT 4 - STATUS OF PRIOR AUDIT REPORT FINDINGS	
APPENDIX I	EPA'S FISCAL 1997 AND 1996 FINANCIAL STATEMENTS
APPENDIX II	AGENCY'S RESPONSE TO THE DRAFT REPORT
APPENDIX III	ADDITIONAL OIG COMMENTS ON THE AGENCY'S RESPONSE
APPENDIX IV	REPORT DISTRIBUTION LIST

## Abbreviations

CERCLA	Comprehensive Environmental Response, Compensation and Liability Act
CFMC	Cincinnati Financial Management Center
CFO	Chief Financial Officer or Officers
CPS	Contracts Payment System
DOJ	Department of Justice
EDR	Environmental Data Registry
EPA	Environmental Protection Agency
EPAYS	EPA Payroll and Personnel System
ERRD	Emergency Remedial and Response Division
FAS	Fixed Assets Subsystem
FFMIA	Federal Financial Management Improvement Act
FIFO	First-In-First-Out
FMD	Financial Management Division
FMFIA	Federal Managers' Financial Integrity Act
FMOs	Financial Management Offices or Officers
GAD	Grants Administration Division
GMRA	Government Management Reform Act
GSA	General Services Administration
IAGs	Interagency Agreements
IFMS	Integrated Financial Management System
IRM	Information Resources Management
LANs	Local Area Networks
OARM	Office of Administration and Resources Management
OCFO	Office of the Chief Financial Officer
OECA	Office of Enforcement and Compliance Assurance
OGC	Office of General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPAC	On-Line Payment and Collection System
ORC	Office of Regional Counsel
PP&E	Property, Plant, and Equipment
PRPs	Potentially Responsible Parties
RMDS	Resources Management Directives System
RTP	Research Triangle Park
SARA	Superfund Amendments and Reauthorization Act
SFFAS	Statement of Federal Financial Accounting Standards
SPEDI	Small Purchase Electronic Data Interchange
SSC	Superfund State Contract
STAG	State and Tribal Assistance Grants
WCF	Working Capital Fund

# INTRODUCTION

## **PURPOSE**

We performed this audit in accordance with the Government Management Reform Act which requires the Environmental Protection Agency (EPA or the Agency) prepare, and the Office of Inspector General (OIG) audit the Agency's financial statements each year. The objectives of our audit were to determine if:

- (1) EPA's financial statements are fairly presented;
- (2) the information reported in the EPA Overview section of the financial statements is consistent with information presented in the principal financial statements;
- (3) adequate internal controls related to the financial statements are in place; and
- (4) EPA management complied with applicable laws and regulations which, if not followed, could have a direct and material effect on the financial statements.

The Superfund Amendments and Reauthorization Act (SARA) of 1986 requires an audit of obligations and disbursements of the Superfund Trust Fund. Our financial statement audit work encompassed the SARA audit requirements.

## **BACKGROUND**

EPA's financial statements are broken down into the following major components: Superfund Trust Fund, State and Tribal Assistance Grants Appropriation and All Other Appropriated Funds. Each of these components is described below.

### **Superfund Trust Fund**

Congress established the Superfund Trust Fund in 1980 to identify and clean up spills of hazardous materials and sites contaminated with hazardous substances. The Superfund program is primarily managed by the Office of Solid Waste and Emergency Response and the Office of Enforcement and Compliance Assurance. Much of the day-to-day operation of the program is carried out in EPA's ten regional offices. Other Federal agencies also receive funding to carry out Superfund activities.

### **State and Tribal Assistance Grants Appropriation**

The State and Tribal Assistance Grants Appropriation provides financial assistance to help states and tribes develop the technical, managerial and enforcement capacity to operate environmental

programs that monitor drinking water systems, implement water quality standards, combat air pollution, promote the use of safer pesticides, manage hazardous waste, and assure compliance with Federal environmental laws. Funding is also directed toward multimedia programs that are designed to prevent or reduce pollution from all sources.

### **All Other Appropriated Funds**

All Other Appropriated Funds consists of all other appropriated, trust and revolving funds not mentioned above. This includes the Asbestos Loan Program, Leaking Underground Storage Tank Trust Fund and the Oil Spill Trust Fund. It also includes the Agency's Working Capital Fund, Environmental Program and Management, Science and Technology, Program Research and Operations, and Building and Facilities Appropriated Funds, as well as other miscellaneous funds of EPA.

## **PRIOR AUDIT COVERAGE**

During previous financial audits, weaknesses that impacted our audit objectives were reported in the areas of:

- documenting EPA's Integrated Financial Management System,
- analyzing Agency financial activities,
- accounting for and managing Superfund accounts receivable,
- recognizing revenue for Superfund state cost share contracts,
- recording unbilled Superfund oversight costs,
- accounting for grant payments,
- capitalizing leases,
- reconciling the components of Superfund net position,
- approving payments for interagency agreements,
- recording accounts payable and accrued liabilities,
- accounting for and controlling property,
- documenting EPA's expense allocation methodology,
- allocating costs to the Superfund Trust Fund,
- developing an Agency indirect cost rate policy, and
- reviewing Agency fees.

Attachment 4 summarizes the status of the prior audit report recommendations in each of these areas. In the attachment, we report many corrective actions have been completed or closed. Out of the 15 weaknesses that impacted our previous audit objectives:

- ! two weaknesses have been corrected and are no longer reported;
- ! seven weaknesses have one or more corrective actions remaining open; and
- ! six weaknesses with established corrective actions were reported as completed or closed, however, for some of these weaknesses, our fiscal 1997 audit disclosed the need for additional corrective actions.

We encourage management attention to make every attempt to resolve all open issues, some of which have been outstanding for a number of years. Other sections of this report on internal controls and compliance with laws and regulations provide additional details on the current status of the Agency's corrective actions.

# INSPECTOR GENERAL'S REPORT ON EPA'S FISCAL 1997 AND 1996 FINANCIAL STATEMENTS

The Administrator  
U.S. Environmental Protection Agency:

In accordance with the requirements of the Government Management Reform Act (GMRA), we performed an audit of EPA's fiscal 1997 and 1996 financial statements. Following, are the results of our audit that included determining whether: (1) EPA's financial statements are fairly presented, (2) information presented in the Overview is consistent with the principal financial statements, (3) adequate internal controls related to the statements are in place, and (4) the Agency complied with applicable laws and regulations.

As described in Note 1, these financial statements were prepared in accordance with applicable provisions of OMB Bulletins 94-01 and 97-01, entitled "Form and Content of Agency Financial Statements," both of which are considered a comprehensive basis of accounting other than generally accepted accounting principles. EPA received a waiver from OMB for the preparation of Statements of Cash Flows and Budgetary Resources and Actual Expenses.

The financial statements include expenses incurred by grantees, contractors and other Federal agencies. Our audit work pertaining to these expenses included testing only within EPA. Audits of grants, contracts and interagency agreements performed at a later date may disclose questioned costs of an undeterminable amount at this time.

In addition, the United States Treasury collects and accounts for excise taxes that are deposited into the Superfund and Leaking Underground Storage Tank Trust Funds.<sup>1</sup> The United States Treasury is also responsible for investing amounts not needed for current disbursements and transferring funds to EPA as authorized in legislation. Since the United States Treasury, and not EPA, is responsible for these activities our audit work did not cover these activities.

The Office of Inspector General (OIG) is not independent with respect to amounts pertaining to its operations that are presented in the financial statements. The amounts included for the OIG are not material to EPA's Consolidated Financial Statements. The OIG is organizationally independent with respect to all other aspects of the Agency's activities.

The Supplemental Statements of Financial Position and Operations and Changes in Net Position are supplementary information presented for purposes of additional analysis. We reviewed these statements to determine if they are consistent with information in the consolidating financial

---

<sup>1</sup> The Leaking Underground Storage Tank Trust Fund is included in the All Other Appropriated Funds column of the financial statements.

statements. However, our audit work was not designed to express, and we are not expressing, an opinion on the financial statements for the individual funds presented in the supplemental statements.

## **OPINION ON EPA'S FISCAL 1997 FINANCIAL STATEMENTS**

Following are our conclusions about the fair presentation of the Agency's financial statements.

**Consolidating Statement of Financial Position.** The Consolidating Statement of Financial Position fairly presents the financial position of the Superfund Trust Fund, the State and Tribal Assistance Grants Appropriation, All Other Appropriated Funds and EPA as a whole as of September 30, 1997.

**Consolidating Statement of Operations and Changes in Net Position.** The Consolidating Statement of Operations and Changes in Net Position fairly presents the results of operations for the State and Tribal Assistance Grants Appropriation, All Other Appropriated Funds and EPA as a whole for the fiscal year ended September 30, 1997. Material errors in one region's accounting for its unbilled Superfund oversight costs prevented us from being able to determine if the fiscal 1997 Superfund Trust Fund beginning balance for unbilled oversight costs was fairly presented. The beginning balance for unbilled oversight costs affects fiscal 1997 revenue. Therefore, except for the affects, if any, of adjustments that might have been necessary to correct the revenue reported, the Consolidating Statement of Operations and Changes in Net Position fairly presents the fiscal 1997 results of operations for the Superfund Trust Fund. The weaknesses we identified in the Agency's accounting for its unbilled oversight costs are described in more detail in the Evaluation of Internal Controls section of this report.

## **OPINION ON EPA'S FISCAL 1996 FINANCIAL STATEMENTS**

Our audit of EPA's fiscal 1996 financial statements was limited to the Consolidating Statement of Financial Position because we had not previously audited the financial statements of the other entities, except for the Superfund Trust Fund for which we had previously disclaimed an opinion. Therefore, we could not determine whether the balances reported for assets, liabilities and net position were fairly presented as of October 1, 1995. These balances impact the Statement of Operations and Changes in Net Position for fiscal 1996.

We were unable to determine if the Agency fairly presented: the amount of unbilled Superfund oversight costs (affects the Superfund and Consolidated financial statements), the amount owed grantees for costs they had incurred but for which they had not billed EPA (affects all of the financial statements), and the components of Superfund net position (affects only the Superfund financial statements). In our opinion, except for the affects, if any, of adjustments that might have been necessary had we been able to audit the unbilled oversight costs and the amounts accrued for

unbilled grantee expenses, the Consolidating Statement of Financial Position fairly presents the financial position of EPA, as well as the financial position of the State and Tribal Assistance Grants Appropriation, and All Other Appropriated Funds as of September 30, 1996. We disclaimed an opinion on the Superfund Statement of Financial Position as of September 30, 1996 because we were unable to audit the unbilled oversight costs, the amounts accrued for unbilled grantee expenses, and the components of Superfund net position.

## **OVERVIEW SECTION OF THE FINANCIAL STATEMENTS**

We did not identify material inconsistencies between the information presented in Management's Overview of EPA and EPA Programs and information in EPA's principal financial statements. We did not perform sufficient audit work, however, to express an opinion on the information contained in the overview.

## **EVALUATION OF INTERNAL CONTROLS**

We evaluated the Agency's internal control structure: (1) to determine the audit procedures necessary to express an opinion on the financial statements, and (2) to determine whether the internal controls provide reasonable assurance that:

- transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets;
- transactions, including those related to obligations and costs, are executed in compliance with applicable laws and regulations; and
- funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Our objective in evaluating controls was not to express an opinion on controls. Accordingly, we do not express such an opinion. Our evaluation would not necessarily disclose all matters in the internal control structure that might be reportable conditions or material weaknesses. Because of inherent limitations in any internal control structure, losses, noncompliance, or misstatements could occur and not be detected. Also, projecting our evaluation of internal controls to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or the degree of compliance with such controls may deteriorate.

### **Material Weakness**

OMB Bulletin 93-06, "Audit Requirements for Federal Financial Statements," defines a material weakness as a situation where internal control procedures do not reduce to a relatively low level, the risk that errors or irregularities in amounts material to the audited financial statements may

occur and not be detected in a timely manner by employees in the normal course of performing their assigned functions. In evaluating the Agency's internal control structure, we identified the following material weakness.

EPA incurs oversight costs to monitor cleanups of hazardous waste sites. These oversight costs are recoverable by EPA from Potentially Responsible Parties according to the terms of Consent Decrees or Consent Orders. Until bills for these costs are prepared, they are not recorded as an asset in EPA's accounting system. Therefore, regional personnel must estimate the amount of unbilled oversight costs as of September 30, so the costs can be shown as an asset in the financial statements.

Two of the six regions we audited encountered difficulties in estimating their unbilled oversight costs. Based on the concerns we raised, the Agency performed additional work in these two regions to revise the estimate of unbilled oversight costs. The results of our supplemental audit work still found material errors in one region's recalculated beginning balance. We believe the majority of the difficulties encountered by Agency personnel in developing an estimate of unbilled oversight costs were related to inadequate tracking of Superfund sites. Substantial resources were invested to manually generate an estimate since most of the necessary data was not readily available.

The obstacles encountered in estimating the unbilled oversight costs also make billing of these costs a formidable task. The Agency estimated that as of the end of fiscal 1997, it had \$162 million of unbilled oversight costs. Although the \$162 million represents both costs that should have been billed, as well as costs that are not yet due to be billed, we believe improvements in this area could result in considerable increases in amounts recovered to replenish the Superfund Trust Fund. Therefore, we are recommending that the Agency develop a plan with goals and milestones that will ensure all oversight billings are current by the end of fiscal 1998. If the Agency has not corrected this weakness by year end, we recommend the area be reported as a material weakness in the Agency's fiscal 1998 Integrity Act Report.

Attachment 1 describes this material weakness in more detail.

### **Reportable Conditions**

We also identified the following reportable conditions. OMB Bulletin 93-06 defines a reportable condition as an internal control weakness that could adversely affect EPA's ability to ensure: (1) obligations and costs are in compliance with applicable laws; (2) funds, property, and other assets are safeguarded against unauthorized use or disposition; and (3) transactions are properly recorded to permit the preparation of reliable financial statements. Attachment 2 describes each of these reportable conditions in more detail. We will also be reporting other less significant matters involving the internal control structure and its operation in a separate management letter.

- Although the Agency has taken steps to improve controls in the accounts receivable area, we continued to find accounts receivable that were not timely recorded and billed, allowances for

doubtful accounts that were not properly computed, and uncollectible receivables that were not timely written off. Consequently, some accounts receivable may not be correctly valued and timely collected. These problems were caused primarily by Offices of Regional Counsel and program offices not timely forwarding documentation to financial management offices and finance staff not having an accurate understanding of the procedures for calculating the allowance for doubtful accounts.

- During fiscal 1997, the Agency took a number of aggressive actions to permanently resolve longstanding problems in the property area. It issued additional guidance and completed implementation of the Fixed Asset Subsystem which is integrated with the Agency's Integrated Financial Management System. However, the results of this year's audit show the Agency needs to continue efforts to improve its accounting for property. We found personal property which should have been capitalized but was not capitalized, property that was undervalued, and unresolved reconciliation differences. When property is not accurately accounted for, it impacts the quality of the data available to manage EPA's resources and increases the risk of theft, loss or misuse of the property.
- We also continued to find financial management offices were performing only limited account analysis. In some instances, their ability to perform account analysis during fiscal 1997 was restricted because they were not provided with their beginning general ledger account balances until ten months into the fiscal year. Also, some financial management offices were still not using the monthly reports that were available to conduct general ledger account analysis. This is evidenced by the material accounting errors we continued to find. More comprehensive reviews and analyses could reduce such data errors and lead to more timely, reliable financial information.
- During fiscal 1997, the Agency developed a process to estimate the amount of expenses its grantees had incurred as of September 30, 1997, but for which they had not requested payment from EPA. This work ensured the grant accrual amounts were fairly presented for fiscal 1997, but it did not permanently resolve this issue. The Agency still needs to develop a methodology and related procedures for fiscal 1998 and subsequent years. As the Agency plans to change the presentation of its fiscal 1998 financial statements to comply with OMB Bulletin 97-01, "Form and Content of Agency Financial Statements," the procedures need to consider the impact of reporting on a program level, rather than an appropriation level basis.
- Invoice approval forms for interagency agreements EPA has with other Federal agencies were not always timely approved and returned to the finance office responsible for their payment. In addition, detailed cost information to support amounts billed were not always received and reviewed. As a result, the Agency cannot be sure of the validity and legitimacy of the amounts billed for these interagency agreements.
- EPA did not have an adequate process in place to identify, track and report its environmental liability. Substantial audit effort was needed to obtain documentation to ensure EPA is fairly reporting its environmental liability. Information is maintained by many different offices, and the

systems that are being used were not designed to capture and report information about EPA's environmental liability.

- During fiscal 1997 and prior years, regional finance officials did not properly recognize revenue on Superfund State Contracts. Although policies and procedures were developed and a uniform analysis was implemented to ensure revenue was properly recognized, regional personnel again encountered difficulties in making the necessary accounting entries. As a result, accounts associated with Superfund State Contracts were misstated by nearly \$29 million.
- We continue to be unable to assess the adequacy of the automated internal control structure for accounting transactions contained in the Agency's Integrated Financial Management System. During past audits, we reported that the Agency's documentation for the system did not contain the level of detail necessary to construct tests of automated internal controls necessary for a financial statement audit. To resolve this issue, the Agency tasked the contractor for the system to develop accounts receivable documentation which it received on September 30, 1997. We will evaluate the accounts receivable documentation, as a part of our fiscal 1998 financial statement audit.

In addition to the above reportable conditions resulting from our audit of the financial statements, our office also conducted audits of the physical and environmental information systems general controls at a number of EPA regions and other locations during fiscal 1997 and 1998. Our audit reports noted numerous deficient physical and environmental controls which degrade the security and reliability of the regional computer facilities and data. The following three issues represent our major concerns and were noted at most of the facilities reviewed:

- **Regions Need to Improve or Develop Disaster Recovery Plans** - Most of EPA's regional offices did not have a disaster recovery plan for their information systems. The disaster recovery plans which did exist were either outdated or were not comprehensive in nature. In the event of a disaster, critical information could be lost and EPA system managers would have a difficult time restoring their local area networks (LANs)<sup>2</sup> to pre-disaster condition. In some cases, regional management was unaware of Federal requirements concerning plans and procedures. Others cited conflicting priorities and scarce resources as the reason for not addressing this vital management control.
- **Regions Need a LAN Security Plan** - None of the regions reviewed had a formal, comprehensive LAN security plan, as required by OMB Circular A-130 and the Computer Security Act of 1987. In addition, the few draft security plans available for review were missing a number of significant elements. We considered the draft plans to be inadequate, since they did not comply with OMB requirements. We also noted that none of the regions had reported incomplete security documentation as a control weakness in their Fiscal 1996 Federal Managers' Financial Integrity Act (FMFIA or the Integrity Act) Assurance Letters. Prior to the recent receipt of

---

<sup>2</sup> A data communication network operating over a limited geographical area, typically within a building or group of buildings.

Agency-issued guidance, most of the regions were unaware of Federal requirements concerning plans and procedures and, therefore, had just begun to evaluate requirements for a security plan.

- **Lack of Criminal and Financial Investigations for Contractors** - Our audits determined that regional managers do not require contractors who are responsible for Agency information systems to undergo criminal and financial background investigations. This condition could leave sensitive Agency data vulnerable to unscrupulous individuals. OMB Circular A-130, Appendix III, requires the screening of all individuals who are authorized to bypass significant technical and operational security controls of the system. This screening is to occur prior to an individual being authorized to bypass controls and periodically thereafter. The regions are currently working with EPA Headquarters offices to remedy this Agency-wide problem.

Although we have issued separate audit reports<sup>3</sup> containing our recommendations to correct these deficiencies, we believe these matters are significant enough to warrant mention in this report because they relate to the Agency's financial statements.

### **Comparison of EPA'S FMFIA Report with Our Evaluation of Internal Controls**

As required by OMB Bulletin 93-06, we compared EPA's fiscal 1997 FMFIA report with our evaluation of the Agency's internal control systems. For reporting under FMFIA, material weaknesses are defined differently than for financial statement audit purposes. OMB Circular A-123, "Management Accountability and Control" defines a material weakness as a deficiency that the Agency head determines to be significant enough to be reported outside the Agency. While OMB Bulletin 93-06 defines a material weakness as a weakness in controls that creates a risk that amounts material to the financial statements could occur and not be detected.

The material weakness concerning unbilled Superfund oversight costs that we are reporting was not reported in the Agency's FMFIA report. The Agency did report the following material weaknesses that relate to the Agency's financial statements.

- **Construction Grants Close Out.** Of the more than \$50 billion in construction grants awarded in the last 20 years, grants totaling \$8.1 billion remained to be closed out at the end of fiscal 1997. As a result, millions of dollars in potentially ineligible program costs are not being reimbursed for reuse on other high priority state clean water projects.

---

<sup>3</sup> We have issued the following six audit reports and one management letter summarizing our review of the Physical and Environmental Information Systems Controls at:

- a) EPA Cincinnati Facilities, November 28, 1997, Report Number E1AMN7-15-7001-8300001;
- b) EPA Research Triangle Park Facilities, December 10, 1997, Management Letter issued to Enterprise Technology Services Division, Audit Number E1AMN7-15-7001;
- c) Region V Facilities, December 16, 1997, Report Number E1AMN7-15-7001-8300003;
- d) Region IX Facilities, December 19, 1997, Report Number E1AMN7-15-7001-8300004;
- e) Region II Facilities, December 19, 1997, Report Number E1AMN7-15-7001-8300005;
- f) Region III Facilities, December 31, 1997, Report Number E1AMN7-15-7001-8300006; and
- g) Region I Facilities, December 31, 1997, Report Number E1AMN7-15-7001-8300007.

- **Grant Close Out and Oversight of Assistance Agreements.** Agency staff have not adequately managed assistance agreements. Agency project files lack documentation to show that EPA monitored progress on the projects or required recipients to complete projects and submit the required close out documentation. This lack of oversight has created a significant backlog of assistance agreements to be closed out. EPA closed out over 8,000 grants in fiscal 1997, reducing the remaining close-out backlog to approximately 10,000.

- **Information Security Plans.** Security plans for many major applications and general support systems are deficient or nonexistent. Without effective security plans, EPA is vulnerable to unauthorized access, use, manipulation or destruction of its information resources. As previously mentioned, several audits we conducted also identified Information Resources Management vulnerabilities caused by the lack of security plans.

The Agency is also tracking the following Agency-level weaknesses that could affect the financial statements.

- **Adequacy of Regional Administration of the State Revolving Fund Program.** Headquarters' reviews during fiscal 1996 identified problems in several regions with the administration of the State Revolving Fund Program. The problems included failure to fully support a national information system and inadequate oversight of the program. In addition, inadequate financial audit coverage existed in more than half the states and concerns about the pace of the program existed in more than one-third of the states.

- **Year 2000 Data Conversion.** Information systems that store the millennium year as a two-digit number are unable to properly process transactions with dates beyond 1999, placing the data and the programs they support at risk of loss, waste or potential abuse.

- **Internet Security.** A security review conducted by the Agency's Office of Information Resources Management and audits conducted by our office identified security weaknesses in EPA's Internet connectivity that could in the future expose potentially mission-critical information and systems to unauthorized access.

## **TESTS OF COMPLIANCE WITH LAWS AND REGULATIONS**

We tested compliance with those laws and regulations that could either materially affect the financial statements, or that OMB or we considered significant to the audit. Our compliance testing did not disclose any material misstatements to the financial statements as a result of noncompliance with laws and regulations. However, the objective of our audit, including our tests of compliance with applicable laws and regulations, was not to provide an opinion on overall compliance with such provisions. Accordingly, we are not expressing such an opinion. There are a number of ongoing investigations involving EPA's grantees and contractors which could reveal violations of laws and regulations, but a determination about these cases has not been made.

## **Federal Financial Management Improvement Act Compliance**

As required by the Federal Financial Management Improvement Act (FFMIA), as a part of our audit, we assessed whether EPA's financial management systems substantially comply with Federal financial management system requirements, applicable accounting standards, and the Standard General Ledger at the transaction level. In planning, performing and reporting on our tests of compliance, we used OMB's September 9, 1997, FFMIA implementation guidance.

We found EPA was not in substantial compliance with the FFMIA requirements pertaining to accounting standards because, as previously noted, the Agency did not have sufficient controls in place to ensure that recoverable Superfund oversight costs were fairly presented in its financial statements. In addition, the following issues related to the Agency's financial management systems caused the Agency to be in substantial noncompliance with FFMIA as of September 30, 1997.

- OMB Year 2000 Requirements for Financial Systems Activities - The Agency's Core Financial Systems and EPA Payroll and Personnel System (EPAYS) did not have required management controls, including an approved implementation plan, to provide reasonable assurance that Year 2000 activities will be completed before the systems are subject to failure;
- Year 2000 Maintenance Activities for Financial Systems - Maintenance projects for Year 2000 fixes exceeded dollar thresholds without obtaining required management approvals;
- Financial Systems Security (also reported as a material weakness in EPA's fiscal 1997 Integrity Act Report) - As of September 30, 1997, the Agency's Core Financial Systems and EPAYS did not have application security plans, as required by OMB Circular A-130, Appendix III;
- Financial Systems Inventory Data - There were no assurances that the fiscal 1996 financial systems annual inventory data, required by OMB Circulars A-127 and A-11 was consistent, comparable and accurate; and,
- Annual Update of CFO Financial Management Report and Five Year Plan - Significant system changes in the financial systems inventory were omitted from the annual update to the CFO Financial Management Report and Five Year Plan 1994 - 1999, dated October 1996, which is required by OMB Circular A-127.

For additional information concerning these issues, please refer to Attachment 3.

## **Other Noncompliance Issues**

We also identified the following noncompliance issues that did not cause a material misstatement to the financial statements, but are significant.

In prior audits, we reported that EPA had not performed the biennial reviews of fees required by the Chief Financial Officers Act. During fiscal 1997, EPA completed the required reviews. However, the Agency needs to follow through and either institute, revise, or update fees, or obtain exceptions from OMB in accordance with the requirements of OMB Circular A-25. As corrective actions are underway on this issue, we are not making additional recommendations. Attachment 4 provides the current status of the ongoing corrective actions.

Our review also disclosed that EPA is not complying with appropriation law when making disbursements for grants funded with more than one appropriation. Disbursements for these grants are made using the oldest available funding/appropriation first which may or may not be the appropriation that benefitted from the work performed. Thus, EPA is not complying with Title 31 U.S.C. 1301 which requires EPA to match disbursements to the benefitting appropriation. For additional information concerning this issue, please refer to Attachment 3.

# **RESPONSIBILITIES AND METHODOLOGY**

## **EPA MANAGEMENT RESPONSIBILITIES**

EPA's management is responsible for:

- preparing annual financial statements;
- establishing and maintaining a system of internal controls; and
- complying with applicable laws and regulations.

## **OIG RESPONSIBILITIES**

We are responsible for:

- auditing the financial statements to determine if they are free of material misstatements and presented fairly in accordance with the basis of accounting described in Note 1 to the financial statements, and
- evaluating related internal controls and testing compliance with applicable provisions of laws and regulations.

## **AUDIT METHODOLOGY**

In order to fulfill our responsibilities, we:

- examined on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of the significant internal control structure policies and procedures and assessed the level of control risk relevant to the following significant cycles, classes of transactions, and account balances:
  - Receivables and Collections
  - Disbursements and Operating Expenses
  - Payroll
  - Investments

- Property
  - Budget and Obligations
  - Accounts Payable and Accrued Liabilities
  - Fund Balances
  - General Accounting and Financial Reporting
- tested significant controls to determine whether the controls were effective;
  - evaluated the adequacy of: (1) the general automated data processing control structure for backup and disaster recovery, (2) physical and environmental security controls, and (3) the software maintenance processes affecting EPA's financial management systems;
  - followed-up on findings and recommendations from previous audits that could materially affect the financial statements;
  - obtained an understanding of management's process for evaluating and reporting on internal controls and accounting systems as required by FMFIA;
  - compared the material weaknesses reported in the Agency's FMFIA report to the material weaknesses we found;
  - tested compliance with applicable sections of laws and regulations that either materially affect the financial statements or that OMB or our office considered significant to the audit; and
  - performed sufficient tests to report whether EPA's financial management systems substantially comply with Federal financial management systems requirements, applicable accounting standards, and the Standard General Ledger at the transaction level.

Detailed system documentation was not available that would have allowed us to develop an understanding of the IFMS automated control structure and to test these controls.

The information presented in Management's Overview of EPA and EPA Programs is supplemental information required by OMB Bulletins 94-01 and 97-01, both entitled "Form and Content of Agency Financial Statements." OMB Bulletin 93-06, "Audit Requirements for Federal Financial Statements," requires that we obtain an understanding of the internal control structure policies and procedures designed to ensure that data supporting the measures are properly recorded and accounted for to permit the preparation of reliable and complete performance information. OMB Bulletin 93-06 also requires us to assess the risk that the controls in place would not prevent, detect or correct a material misstatement of the information. Our audit work in the area of performance measures was limited to comparing the financial information included in the overview with information contained in the principal financial statements.

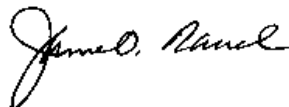
#### **Details of Audit Field Work**

We selected statistical and non-statistical samples from EPA's detailed accounting records supporting various financial statement amounts. We tested these sample transactions to determine if they were adequately supported by documentation and were recorded in accordance with internal control policies and procedures and applicable laws and regulations. We also reviewed other supporting documentation, such as worksheets and schedules, that the Agency used in preparing its financial statements. In addition, we applied certain analytical review procedures to account balances.

The financial management records and supporting documentation we reviewed were maintained by Financial Management Centers in Washington, D.C., Research Triangle Park, Cincinnati and Las Vegas; Financial Management Offices in EPA's regional offices; the Office of the Chief Financial Officer; various offices within the Office of Administration and Resources Management; and by Headquarters and regional program offices. To gain an understanding of established internal control procedures, and to evaluate these controls, we also interviewed personnel in these offices and reviewed applicable policies and procedures. In addition, we conducted a physical inventory of a sample of property items, and we observed the Agency's physical inventory of its property.

Our fieldwork for the fiscal 1996 audit was performed from April 11, 1996, through January 17, 1997. The fieldwork for the fiscal 1997 audit was performed from May 8, 1997 through February 10, 1998.

Except as previously discussed in this report, we conducted our audit work in accordance with: generally accepted auditing standards; the standards applicable to financial audits contained in the Government Auditing Standards (1994 Revision), issued by the Comptroller General of the United States; and OMB Bulletin 93-06, as amended January 16, 1998. These standards require that we plan and perform our audits to obtain reasonable assurance that the financial statements are free of material misstatement. We believe that our audit provides a reasonable basis for our opinions.



James O. Rauch  
Principal Deputy Assistant Inspector

General for Audit  
U.S. Environmental Protection Agency  
February 10, 1998

**MATERIAL WEAKNESS**

**TABLE OF CONTENTS**

	<u>Page</u>
1 - IMPROVEMENTS NEEDED IN AGENCY'S ACCOUNTING FOR UNBILLED SUPERFUND OVERSIGHT COSTS .....	1-1

## **IMPROVEMENTS NEEDED IN AGENCY'S ACCOUNTING FOR UNBILLED SUPERFUND OVERSIGHT COSTS**

EPA incurs oversight costs to monitor cleanups of hazardous waste sites. These costs are recoverable by EPA from Potentially Responsible Parties (PRPs) according to the terms of the respective Consent Decrees or Consent Orders. Both the Comprehensive Environmental Response, Compensation, and Liability Act and the Superfund Amendments and Reauthorization Act provide for recovery of costs from PRPs. EPA expends appropriated funds when it incurs oversight costs and tracks the cumulative costs, by site, in the Integrated Financial Management System (IFMS). In order to prepare oversight cost billings, the site specific cumulative costs must be analyzed to identify those costs which are recoverable from and billable to PRPs. Until the billings are prepared, reimbursable costs incurred since the last billing date are not recorded in the accounting records as assets. Therefore, regional personnel must estimate the amount of unbilled oversight costs, so the costs can be shown as assets on the financial statements.

We audited the accruals for unbilled oversight costs that were recorded by six regional offices. We found two regional offices encountered difficulties in estimating their unbilled oversight costs. One region recorded an accrual that could not be adequately supported. The same region later calculated a second accrual based on historical billing trends. We found that accrual, as well as one for another region, were inadequately supported because the historical billing analysis used to calculate the accruals was based on a limited percentage of site data. We believe the majority of the difficulties encountered by the Agency personnel were related to inadequate tracking of Superfund sites. Substantial resources were invested by the Agency to manually generate an estimate for recoverable unbilled oversight costs. Most of the necessary data such as: (1) an inventory of active Superfund oversight sites, (2) past billing data, and (3) future billable costs were not readily available to Agency staff. It is these same obstacles that make billing responsible parties a formidable task. We will follow up on these issues in current audit work being performed in this area.

Because of our concerns, the Agency performed additional work in the two regions where we identified problems in order to revise its estimate of unbilled oversight costs. The majority of the issues we raised in our draft report were satisfactorily addressed. The results of our supplemental audit work showed that the recalculated fiscal 1997 ending balance for unbilled Superfund oversight costs was not materially misstated. However, our audit work still found material errors in one region related to the Agency's recalculated fiscal 1997 beginning balance. As a result, we could not determine whether the fiscal 1997 revenue earned on unbilled oversight costs is fairly presented, so we are qualifying our opinion on the fiscal 1997 Statement of Operations and Changes in Net Position for the Superfund Trust Fund.

The billing of Superfund oversight costs needs to be a regional priority. The Agency estimates that as of September 30, 1997, it had \$162 million of unbilled oversight costs making it the third largest Superfund asset after Trust Fund Balances at Treasury and Non-Federal Accounts

Receivable. We realize that the \$162 million represents both costs that should have been billed, as well as those that are not yet due to be billed. However, if the regions were up to date on their billings, estimating the unbilled portion of the Superfund oversight costs would not be such a difficult, time consuming process. More importantly, by billing these costs, EPA could recover additional funds to replenish the Superfund Trust Fund. Further, by improving the timeliness of its billings, the Agency could improve the likelihood of recovering the oversight costs.

#### RECOMMENDATION

The Acting Chief Financial Officer (CFO) develop a plan with goals and milestones that will ensure all oversight billings are current by the end of fiscal year 1998.

#### AGENCY COMMENTS AND OIG EVALUATION

The Acting CFO agreed that the Agency needs to improve the timeliness of its oversight cost billings. To that end, her office will be working with the Office of Enforcement and Compliance Assurance to develop an action plan by April 30, 1998, setting forth the steps and milestones to achieve the goal of timely billings. The two offices also plan to work together to strengthen the current methodology for estimating the amount of unbilled oversight costs at year end.

We concur with the Agency's planned corrective actions. Since this is a significant issue affecting the Agency's recovery of Superfund Trust Fund monies it should be reported as a fiscal 1998 Integrity Act material weakness, if it has not been corrected by year end.

**REPORTABLE CONDITIONS**

**TABLE OF CONTENTS**

	<u>Page</u>
2 - FURTHER IMPROVEMENTS NEEDED IN MANAGING EPA'S ACCOUNTS RECEIVABLE .....	2-1
3 - CONTINUING EFFORTS NEEDED TO IMPROVE THE ACCOUNTING FOR CAPITALIZED PROPERTY .....	2-5
4 - ADDITIONAL ACCOUNT ANALYSIS COULD IMPROVE THE ACCURACY OF THE AGENCY'S FINANCIAL INFORMATION .....	2-8
5 - GRANT ACCRUAL PROCEDURES NEEDED .....	2-10
6 - CONTROLS FOR APPROVING INTERAGENCY AGREEMENT INVOICES NEED TO BE IMPROVED .....	2-12
7 - PROCEDURES NEED TO BE ESTABLISHED FOR IDENTIFYING, TRACKING AND REPORTING EPA'S ENVIRONMENTAL LIABILITY .....	2-14
8 - REVENUE WAS NOT PROPERLY RECORDED ON SUPERFUND STATE CONTRACTS .....	2-17
9 - AUTOMATED APPLICATION PROCESSING CONTROLS FOR THE INTEGRATED FINANCIAL MANAGEMENT SYSTEM COULD NOT BE ASSESSED .....	2-19

## **FURTHER IMPROVEMENTS NEEDED IN MANAGING EPA'S ACCOUNTS RECEIVABLE**

During prior financial statement audits, we reported weaknesses in the Agency's management of its accounts receivable. The Agency took action to improve controls in this area by conducting technical conferences, issuing additional guidance and instructing Financial Management Offices (FMOs) to conduct quality assurance reviews covering this area. However, we continued to find some accounts receivable that were not recorded and billed timely, allowances for doubtful accounts that were not properly computed, and uncollectible receivables that were not timely written off. Consequently, some accounts receivables may not be correctly valued and timely collected. These problems were primarily due to Offices of Regional Counsel (ORC) and program offices not timely forwarding documentation to Agency FMOs, and FMO staff not having an accurate understanding of the procedures for calculating the allowance for doubtful accounts.

### Accounts Receivable Were Not Timely Recorded and Billed

The Statement of Federal Financial Accounting Standards Number 1, "Accounting for Selected Assets and Liabilities;" EPA's Resources Management Directives System (RMDS) 2540, Chapter 9, "Receivables and Billings;" and the Financial Management Division's year-end guidance all require accounts receivable to be recorded in the accounting system completely, promptly and at the appropriate value. In Regions 2, 3, 4, and 5, we identified 36 Superfund accounts receivable, valued at \$163.4 million, that were not recorded in IFMS within the proper time frame. These receivables were recorded from 2 to 90 days beyond the time frames established in RMDS 2550D. The untimely recording of these receivables was attributed to ORC and program offices not promptly forwarding the appropriate documentation to the FMO. RMDS 2550D instructs ORCs to forward copies of all source documents (e.g. consent decrees) to the FMO within three workdays from the date they are received from the Department of Justice or a court. Upon receipt of the document, the FMO has three workdays to record a receivable in IFMS.

In addition, we noted that responsible private parties were not timely billed for Superfund oversight costs. For example, it took almost three years for Region 2's Emergency Remedial and Response Division (ERRD) to issue a bill for oversight costs valued at \$1.5 million that related to one site. This delay resulted from competing priorities, lack of resources, and delays from program offices other than ERRD. In Region 4, Superfund oversight costs at one site, amounting to \$94,000, were not timely billed because the FMO had not received a memorandum from the regional program office advising them of the debt. There was a mutual understanding between Region 4's FMO and Waste Management Division that before the FMO prepared a bill for oversight costs, the Waste Management Division would issue a memorandum advising the FMO of the debt owed. RMDS 2550D requires the FMO or regional program offices to prepare and send a bill to the debtor within 5 workdays of determining a debt is owed the Agency. Failure to record and bill Superfund receivables timely could jeopardize the recovery of funds for the Superfund Trust Fund and the availability of resources to clean up other contaminated sites.

### Allowances For Doubtful Accounts Were Improperly Calculated

On September 1, 1994, the Chief, Financial Reports and Analysis Branch issued a memorandum entitled, "Modification of Procedures for Calculating the Allowance for Doubtful Accounts." It requires FMOs to use a combination of two allowance methods, specific identification and percentage analysis, to compute their allowances for doubtful accounts. In addition, RMDS 2540, Chapter 9, instructs FMOs to: (1) perform quarterly reviews of the allowance for doubtful accounts and the percentages used to calculate the percentage analysis portion of the allowance, and (2) update percentages as necessary. By not calculating an accurate allowance for doubtful accounts, receivables are not properly valued. Our review of the allowance for doubtful accounts calculation in Regions 3, 4, and 5 disclosed the following weaknesses.

In Region 3, the FMO did not perform quarterly reviews of the allowance percentages and did not maintain adequate documentation to support the calculation of the percentages used during fiscal 1997. After we brought this to the FMO's attention, the FMO updated its allowance percentages and recalculated the fiscal 1997 allowance for doubtful accounts.

In Region 4, the FMO improperly included Superfund State Contract (SSC) receivables in the allowance for doubtful accounts calculation performed in the first quarter of fiscal 1997. Since SSC receivables are considered fully collectible, no allowance is necessary. In addition, the FMO did not perform a review of its accounts receivable in the second or third quarter of fiscal 1997, and it used allowance percentages that had not been reviewed or updated for two years. Auditors brought these errors to the FMO's attention, who agreed to correct the deficiencies and adhere to the Agency's established procedures for calculating the allowance at year-end. When we reviewed the year-end adjustment to the allowance for doubtful accounts, we found that the FMO used only the percentage analysis method and omitted the specific identification component from the allowance calculation. In addition, the updated allowance percentages were not reasonable. These errors occurred because finance personnel did not have an accurate understanding of the procedures for calculating the allowance. The FMO subsequently recalculated the allowance using the correct allowance methods and reasonable allowance percentages.

In Region 5, the FMO did not perform required quarterly reviews of the allowance for doubtful accounts. Although the FMO did review the allowance accounts at the end of fiscal 1997, SSCs and allowances for receivables that had already been collected were improperly included in the calculation. In addition, the FMO had not updated its allowance percentage since fiscal 1993. These inaccuracies occurred because finance personnel did not place a high priority on reviewing the allowance for doubtful accounts and did not follow the established procedures for calculating the allowance. The FMO plans to apply updated allowance percentages in subsequent periods.

### Uncollectible Accounts Receivable Were Not Timely Written Off

During our audit, we also found that uncollectible accounts receivable were not timely written off due to communication problems between FMOs and ORCs, and ORCs concentrating on other

priorities. Accounts receivable are overstated when uncollectible receivables are not timely written off. When FMOs in Regions 2, 3, and 4 requested information from their respective ORCs, regarding the ability to collect outstanding accounts receivable, the FMO either did not receive a response or the response was provided months and sometimes years later. When timely responses were not received, FMOs did not follow-up with the ORC. For example, the FMO in Region 2 forwarded a delinquent receivable, valued at \$947,000, to the ORC in September 1993 who subsequently referred it to the Department of Justice (DOJ). In December 1993 the receivable was deemed uncollectible, and ORC instructed the case attorney to prepare a write-off memo. The memo was never written and the FMO was not informed of this until we brought it to the FMO's attention in August 1997. In Region 4, we identified an instance where it took the ORC more than 2 years to respond back to the FMO regarding a receivable's collectibility.

Once notified by the FMO that a debt is 120 days in arrears, RMDS 2540, Chapter 9, requires the ORC to notify the FMO in writing within 30 days of their decision to: (1) recommend the uncollected debt be referred to DOJ for the initiation of a judicial action, (2) recommend additional FMO collection procedures such as referral to a private collection agency, or (3) recommend write-off of the debt. Attorneys were not aware of the RMDS requirement.

## RECOMMENDATIONS

2.0 We recommend that the Acting CFO:

- 2.1. provide detailed training to regional finance personnel on how to calculate an allowance for doubtful accounts,
- 2.2. conduct site visits to regional finance offices and perform quality assurance reviews to ensure FMOs are properly following accounting guidance,
- 2.3. develop procedures that require FMOs to follow-up with ORCs and program offices when responses to their requests for receivable collectibility information are not received timely, and
- 2.4. work with the Assistant Administrator for Enforcement and Compliance Assurance to implement guidance that will ensure Offices of Regional Counsel and program offices timely provide financial management offices with the supporting documents they need to record and write off accounts receivable.

2.5 We recommend the Assistant Administrator for Enforcement and Compliance Assurance emphasize to ORCs:

- 2.5.1. the need to forward to FMOs within 3 workdays, copies of all source documents that are required to establish accounts receivable, and

2.5.2. the need to respond back to FMOs within 30 days concerning receivable collectibility determinations.

#### AGENCY COMMENTS AND OIG EVALUATION

The Acting CFO stated that the great majority of receivables are recorded and billed timely, allowances for doubtful accounts are estimated within acceptable bounds of accuracy, and uncollectible receivables are identified and written off. She agreed, however, that further improvements can be made. Her office will provide detailed training in the proper calculation of the allowance for doubtful accounts, update accounts receivable guidance, and conduct site visits to regional finance offices as part of the Quality Assurance Program. She also stated that her office will continue to work closely with the ORCs and program offices to improve the management and reporting of delinquent receivables. In addition, a memorandum will be sent to ORCs to remind them of the timeframes for forwarding to the FMOs source documents for establishing accounts receivable and information about the collectibility of receivables.

We recognize the Agency has made improvements in the accounts receivable area and concur with the Agency's planned corrective actions.

## CONTINUING EFFORTS NEEDED TO IMPROVE THE ACCOUNTING FOR CAPITALIZED PROPERTY

For a number of years, we have reported that EPA needed to make improvements in its accounting for property. During fiscal 1997, the Agency took a number of steps to permanently resolve these issues. The Agency issued policy announcements on capital leases and capitalized software, and interim guidance on purchasing capital assets and accounting for capital improvements. In addition, during July 1997, the Agency completed implementation of the Fixed Assets Subsystem (FAS), which is integrated with IFMS, the Agency's accounting system. As a result, property figures for the fiscal 1997 financial statements were derived from the balances in IFMS. We commend the Agency for the aggressive actions it has taken to correct weaknesses in the property area. However, the results of this year's audit show the Agency needs to continue its efforts to improve the accounting for property. We found personal property which should have been capitalized that was not capitalized, property that was undervalued, and unresolved reconciliation differences. When property is not accurately accounted for, it impacts the quality of data available to manage EPA's resources and increases the risk for theft, loss, or misuse of the property.

### Capital Personal Property Was Not Capitalized or Was Undervalued

The Statement of Federal Financial Accounting Standards (SFFAS) Number 6, Accounting for Property, Plant, and Equipment (PP&E) define PP&E as tangible assets, including land, which meet the following criteria: (1) have an estimated useful life of two years or more; (2) are not intended for sale in the ordinary course of operations; and (3) have been acquired or constructed with the intention of being used or available for use by the entity. PP&E should be recorded at cost. In addition, any costs which either extend the useful life of existing PP&E, or enlarge or improve its capacity should be capitalized and depreciated over the remaining useful life of the asset. The Agency's policy requires personal property owned by EPA to be capitalized, if it costs \$25,000 or more.

At Research Triangle Park (RTP), we identified personal property that was not capitalized but should have been, was not recorded in FAS, or was capitalized but recorded at undervalued amounts in FAS. Many of these items were components or betterments to existing personal property. Specifically, we identified 15 Working Capital Fund (WCF) personal property items, totaling \$4,205,020 and meeting the capitalization criteria, which either were not capitalized, were not recorded in FAS, or were capitalized but at undervalued amounts. In addition, we found personal property from the All Other funds totaling \$687,021, which met EPA's capitalization criteria, but was not capitalized or recorded in FAS. As a result, the value of EPA's property and equipment was understated in the financial statements. These items were not properly capitalized because Agency personnel were unclear as to their responsibilities. They also did not understand the accounting requirements in new Agency accounting guidance, and the changes in accounting for property that resulted from implementation of FAS.

### Reconciliation Differences Were Not Resolved

Property balances reported in the fiscal 1997 financial statements were derived from the IFMS General Journal balances. To ensure the General Journal properly reflected the amount of Agency-held capital equipment, the Financial Management Division (FMD) provided guidance and year-end instructions (dated August 8, 1997 and October 1, 1997) to the Financial Management Officers (FMO) requiring them to reconcile capital equipment transactions between the General Journal and Fixed Assets Journal. Differences between the journals were to be corrected by adjusting entries. For transactions recorded in the General Journal for which there was no corresponding Fixed Assets Journal record, copies of supporting documentation for the transaction were to be forwarded to the appropriate Property Management Officer (PMO), so a corresponding Fixed Assets Journal record could be established.

In general, we found that discrepancies between the two journals were resolved and adjusting entries were made as of year-end. Most errors noted were due primarily to transactions included in the General Ledger account for Equipment (Account 1750) which did not meet the Agency's capitalization criteria. However, we found that the General Journal and Fixed Assets Journal did not reconcile at RTP and Cincinnati. Even though the appropriate adjustments were made to the General Journal at RTP and Cincinnati, the adjustments to FAS were not made. The Fixed Assets Journal for RTP was undervalued by approximately \$1.7 million resulting in unrecorded capital property in FAS. We also identified upgrades to existing WCF personal property, totaling \$655,770, which were capitalized or identified for capitalization during the year-end reconciliation process; however, they were not included in FAS. RTP property personnel did not capitalize these property items because they did not consider or treat "internal parts" as such. In addition, in Cincinnati, we found that the Fixed Assets Journal was understated by \$850,395. Because FAS was not implemented until late fiscal 1997 when Cincinnati property personnel were preparing EPA excess property for GSA auction, property records for Cincinnati were not established in FAS by year-end. Agency officials acknowledged the discrepancies and plan to establish the appropriate property records in FAS. However, as of the end of fieldwork, no corresponding Fixed Assets records had been established in FAS. Even though these transactions have no material effect on the financial statements, failure to record these items in the Agency's property accountability system in a timely manner increases the risk for theft, loss, or misuse of the property.

### RECOMMENDATIONS

3.0 We recommend that the Acting CFO, in conjunction with the Acting Assistant Administrator for Administration and Resources Management, continue to jointly work to strengthen controls designed to ensure that property is timely and accurately recorded in the Agency's accounting system. Specifically, additional training should be provided to property and finance personnel addressing the roles, responsibilities, and requirements for processing and recording capital asset transactions in IFMS FAS.

3.1 We recommend that the Acting Assistant Administrator for Administration and Resources Management encourage PMOs to establish property records in a timely manner once supporting documentation is received from the FMO during the reconciliation process.

#### AGENCY COMMENTS AND OIG EVALUATION

The Acting CFO agreed with our recommendations and stated that FMD and FMSD plan to hold two training sessions in fiscal 1998. The first session for PMOs scheduled for March 1998 will provide additional training on using the FAS, the revised property management business process, and other property management issues. At this training session, FMSD will also emphasize the importance of communicating with the FMOs to ensure that the procedures to obtain proper documentation from the FMO are followed. The second session to be held in June 1998 will be a joint session at the FMD technical workshop where both property and finance personnel will be briefed on their respective property accounting roles and responsibilities, and they will participate in panel discussions on related issues. We concur with the Agency's planned corrective actions in the property area.

## **ADDITIONAL ACCOUNT ANALYSIS COULD IMPROVE THE ACCURACY OF THE AGENCY'S FINANCIAL INFORMATION**

During prior financial statement audits, we reported that Financial Management Officers (FMOs) did not have information available to them to evaluate accounting activity, perform trend analysis, and identify accounting errors. This lack of adequate information and reporting resulted in Agency officials being unable to effectively monitor various asset and liability accounts. The Financial Management Division (FMD) acknowledged this weakness and began providing each FMO with monthly general ledger account reports and technical workshops which outlined how to perform account analysis. Although we commend FMD for their attempts to improve the use of account analysis, we continued to find FMOs performed only limited account analysis. In some instances, the FMOs ability to perform account analysis during fiscal 1997 was restricted as beginning general ledger account balances, broken out by accounting points, were not provided to them until ten months into the fiscal year. Also, some FMOs were still not using the monthly general ledger account reports that were available to conduct account analysis. This is evident by the accounting errors we continued to find that could have been corrected early on had FMOs conducted general ledger account analysis.

More comprehensive reviews and analyses could enhance accounting systems, reduce data errors, and lead to more reliable financial information. For example, we conducted our own analytical reviews of fiscal 1997 year-end account balances and noted that for certain Treasury symbols in Region 4 the balance in the Allowance for Doubtful Accounts was more than Region 4's total accounts receivable. This caused Region 4's net receivables to have a negative balance. The FMO was unaware of this problem until auditors brought it to the FMO's attention. In RTP, we found that Non-Federal accrued liabilities were understated by \$138.4 million at fiscal year-end. Quality assurance procedures were not in place to detect a computer programing error that caused two decimal places to be dropped from each Non-Federal accrued liability amount that was recorded in IFMS. Like the FMO in Region 4, RTP's FMO was unaware of this error until it was brought to his attention. Both of the illustrated errors could have easily been identified and corrections recorded into the accounting system before the fiscal 1997 general ledger closed had the FMOs conducted general ledger account analysis.

### **RECOMMENDATION**

4.0 We recommend that the Acting CFO continue to emphasize to regional financial personnel the importance of analytical reviews, and provide them timely general ledger account information and detailed training that is specific to each general ledger account.

## AGENCY COMMENTS AND OIG EVALUATION

The Acting CFO agreed that the Agency should continue to emphasize the importance of analytical reviews. She indicated her office is working on several major initiatives that when implemented should markedly improve the Agency's account analysis capabilities. However, she did not provide specific corrective actions because she does not believe this issue should be categorized as a reportable condition.

We believe the lack of adequate general ledger account analysis is a serious internal control weakness, and it is correctly categorized as a reportable condition. Such analysis is critical to ensuring that Agency managers have timely, reliable information for managing their environmental programs. As the Agency moves forward to improve its cost accounting capabilities, the need for timely account analysis will become increasingly more important. Therefore, we request the Acting CFO provide specific corrective actions in the response to this report.

## **GRANT ACCRUAL PROCEDURES NEEDED**

During the fiscal 1996 financial statement audit, the Agency did not have documentation available that allowed us to determine if the accrual for grant liabilities reported in the financial statements was fairly presented. The Agency records this accrual, so the financial statements will show expenses grantees have incurred as of September 30, but for which they have not billed EPA. This issue was a basis for a qualification to the financial statements for many years. The Agency developed a process to estimate the accrual for grant liabilities for the fiscal 1997 financial statements. This process included obtaining OMB approval to request information from a sample of grantees on their unbilled grant expenses. This information was then extrapolated to estimate the grant accrual amounts to be reported in the financial statements. This work ensured that the grant accrual amounts were fairly presented in the Agency's fiscal 1997 financial statements; however, it did not provide a permanent resolution to this issue.

The Agency still needs to develop a methodology and related policies and procedures for estimating the grant accrual amounts to be reported for fiscal 1998 and subsequent years. As the Agency plans to change the presentation of the fiscal 1998 financial statements to comply with OMB Bulletin 97-01, "Form and Content of Agency Financial Statements," the procedures must also consider any impact that may result from reporting on a program level basis rather than on the current appropriation level basis. Any procedures developed should be supported by a verifiable rational analysis. Using the fiscal 1997 grant accrual results to estimate the fiscal 1998 grant accrual amounts without considering the grantees' actual fiscal 1998 payment request practices, will result in a qualification of our opinion on the fiscal 1998 financial statements.

### RECOMMENDATION

5.0 We recommend that the Acting Chief Financial Officer develop guidance for determining the grant accrual amounts for future financial statements. The procedures should consider the impact of implementing OMB Bulletin 97-01 and should be supported by a verifiable rational analysis.

### AGENCY COMMENTS AND OIG EVALUATION

In responding to the draft report, the Acting CFO questioned our decision to classify this issue as a reportable condition. She stated that her office is aware of the changed requirements and has already started developing new grant accrual procedures. These new procedures will be in place in time to properly compute the fiscal year 1998 grant accrual.

To date, we have not been provided any of the support for this ongoing work. We continue to believe this area should be reported as a reportable condition for fiscal 1997 because policies and procedures for estimating grant accruals are currently not in place. A corrective action plan with

milestones should be developed to help ensure the necessary data is available to timely develop a grant accrual estimate.

## **CONTROLS FOR APPROVING INTERAGENCY AGREEMENT INVOICES NEED TO BE IMPROVED**

During our fiscal 1994 and 1996 financial statement audits, we reported that project officers were not timely approving Interagency Agreement (IAG) invoice payment requests. The Agency acknowledged this weakness and agreed to take corrective action to ensure that project officers received the information needed for the timely approval of payment requests. During the past year, the Agency implemented several recommended actions as noted below. However, our fiscal 1997 financial statement audit again found that project officers were not receiving required IAG information and payment requests were not timely approved.

The Resources Management Directives System, Section 2550C, Chapter 4, Interagency Agreements states that it is the project officer's responsibility to: (1) receive and review detailed cost information submitted by other Agencies, (2) approve vouchers and On-Line Payment and Collection System (OPAC) billings received from other agencies after determining that performance is in accordance with the agreement, and (3) forward approved vouchers to the Cincinnati Financial Management Center (CFMC) for payment within five days after receipt. Similar responsibilities are identified in the EPA Project Officer Handbook.

The CFMC automatically disburses the IAG payment request through Treasury's OPAC system. If a project officer disputes a billed amount, CFMC has three months to "charge back" the amount. During fiscal 1997, we found invoice approval forms for sixteen IAGs, valued at \$7,721,354, were not approved and returned to CFMC timely, nor was detailed cost information reviewed. These problems were found at Headquarters and three regions. These problems occurred because project officers were not properly trained and detailed cost information was not provided by the other agency. Project officers must understand their role in reviewing invoices and related cost information. In addition, agencies which enter into IAGs with EPA must provide sufficient cost information to support their invoices. When other agencies do not provide this information, EPA cannot be sure the costs are valid and allowable under the terms of the IAGs. EPA also loses the opportunity to charge back the disapproved costs through the OPAC system when the project officer does not return the completed approval forms to CFMC within the required time frame.

As a result of our 1994 and 1996 audit recommendations, the Agency has taken the following actions. In 1997, the project officer training information was updated to instruct project officers to call the Grants Administration Division, if they have problems obtaining cost information from other agencies. These updates are to be included in the 1998 training manual revision. The Agency also requires that all new IAGs include a clause requiring other agencies provide the EPA project officers with information on costs incurred and requiring the EPA project officers to suspend or charge back the payment, if the information is not provided. Although problems continue with IAGs, we believe that once all project officers receive the updated training and new IAGs are processed with the required clause, IAG invoices will be properly approved. Therefore, we are not making any new recommendations.

## AGENCY COMMENTS AND OIG EVALUATION

In responding to the draft report, the Acting CFO questioned our decision to continue to report this issue as a reportable condition since we have no new recommendations, and the recommendations from previous audits have been implemented. We agree that our previous audit recommendations have been implemented. Unfortunately, our audit work again found project officers were not receiving required information and payment requests were not timely approved. As we stated earlier, we believe that once all project officers receive the updated training and new IAGs are processed with the required clause, IAG invoices will be properly approved. Until the results of our audit work indicate this issue has been resolved, we will continue to report this issue as a reportable condition.

## **PROCEDURES NEED TO BE ESTABLISHED FOR IDENTIFYING, TRACKING AND REPORTING EPA'S ENVIRONMENTAL LIABILITY**

EPA does not have an adequate process in place to identify, track and report on its environmental liability. While the amounts disclosed in the financial statements are fairly presented, substantial audit effort was needed to obtain documentation to ensure amounts reported were reasonable. Many different EPA offices maintain pieces of the information needed to report EPA's environmental liability, and the systems being used were not designed to capture and report this information. Although, EPA's estimated environmental liability at this time is not material to the financial statements, EPA needs to develop a process so that it can track and report on this liability.

The Statements of Federal Financial Accounting Standards (SFFAS) prescribe Federal agency requirements for reporting environmental liabilities. SFFAS No. 5, "Accounting for Liabilities of the Federal Government," requires Federal agencies to record and/or disclose a liability on their financial statements when a future outflow of resources is probable and reasonably estimable. It provides criteria for determining if environmental cleanup costs should be recognized as liabilities and/or disclosed in the footnotes. In addition, SFFAS No. 6, "Accounting For Property, Plant, and Equipment," states that cleanup costs resulting from Federal operations at Federal facilities are to be recognized as a liability on Federal financial statements. Although implementation of SFFAS No. 6 was not required for fiscal 1997, the Agency elected to report its known environmental liability at its facilities in the fiscal 1997 financial statements.

The Chief Financial Officer (CFO) is responsible for the preparation of the Agency financial statements. However, the information which supports the environmental liability amounts must be provided by various Agency program/administrative offices. For the fiscal 1997 financial statements, both the CFO and the Office of Inspector General staffs agreed that the Agency could have an environmental liability in the following areas:

- (1) cleanup costs for EPA-owned property, plant, and equipment;
- (2) cleanup costs at hazardous waste sites where EPA has been identified as a potentially responsible party (PRP), or has violated federal/state environmental statutes<sup>4</sup>; and
- (3) preauthorized mixed funding settlement agreements, which are EPA commitments to reimburse responsible parties for a percentage of their cleanup costs at hazardous waste sites.

---

<sup>4</sup> Cleanup costs at hazardous waste sites are paid from the U.S. Treasury Judgement Fund, however, the Agency must recognize the full cost of the claim, regardless of who is actually paying the settlement or judgement.

## Cleanup Costs For EPA-Owned Property, Plant, and Equipment

In response to the CFO officials' request, the Office of Administration and Resources Management (OARM) provided information about EPA's known environmental liabilities at its EPA laboratories and buildings. The information OARM provided was developed based on internal discussions; previously conducted safety, health, and environmental audits; and prior visits to EPA facilities. However, an OARM official who conducts the safety, health, and environmental audits stated that their reviews are not designed to identify any future environmental liability at the facility. According to the "Safety, Health and Environmental Review Document: A Summary of EPA Policies, Authorities and Procedures" dated September 1994, the purpose of the audits is to: "verify compliance with statutory, regulatory and Agency policy requirements; evaluate the effectiveness of management systems; verify the implementation of corrective actions for findings in previous reviews; and, assess risks from regulated and unregulated materials and practices". In addition, OARM officials further acknowledged that their response was not intended to represent EPA's environmental liability nationwide for fiscal 1997 or future financial statements. OARM officials identified only one known site where the Agency has an environmental liability. The estimated cleanup cost of \$798,246 is included in the fiscal 1997 financial statements.

Since the Agency did not have a process in place to identify the Agency's environmental liability at its facilities, we independently contacted EPA's 36 laboratories (as listed in the EPA Facilities 1997 Nationwide Guide) to determine those instances where the facilities may have subjected themselves to possible environmental liabilities. We identified one additional site with an estimated liability of \$30,000 that has also been recorded as an environmental liability in the financial statements.

## Cleanup Costs Where EPA Has Been Identified As a PRP

The Office of Enforcement and Compliance Assurance (OECA) prepared a listing of hazardous waste sites where EPA has been identified as a PRP and the associated potential liability amounts. The CFO officials used this listing to determine the sites and potential liability amounts to be reported as an environmental liability in the financial statements. Two sites were identified with an estimated cleanup cost of \$50,000 and \$15,000 respectively. However, documentation could not be found to support the estimated cost of \$15,000. Subsequently, the Office of General Counsel (OGC) estimated EPA's liability at the site as \$25,000. Therefore, the Agency recorded \$75,000 as an environmental liability in the financial statements.

We cannot be assured that all sites where the Agency has been identified as a PRP are tracked in an Agency system. Although OECA's Site Enforcement Tracking System (SETS) was used to identify sites where EPA may be a PRP, the system was not designed for this purpose. SETS identifies PRP's at sites where EPA has issued a notice letter. Therefore, SETS would not identify EPA as a PRP unless EPA has issued itself a notice letter as a PRP. OECA officials confirmed that SETS cannot be relied upon as the exclusive source for determining all sites where EPA is a PRP.

We also obtained OGC's assurances that the Agency reasonably reported its environmental liabilities at sites where EPA has been identified as a PRP. OGC identified three additional sites with an estimated cleanup cost of \$80,000, \$100,000 and \$50,000 respectively, and the Agency recorded the estimated cleanup cost at these sites as an environmental liability in the financial statements. We met with OGC officials to discuss the process used to develop the legal letter. Based on our discussions with OGC officials and the legal letter, we are reasonably assured that the financial statements do not materially misstate the Agency's environmental liabilities at sites where EPA has been identified as a PRP.

#### Preauthorized Mixed Funding Settlements Agreements

The Superfund program office provided a listing of 11 outstanding preauthorized mixed funding settlement agreements for disclosure in the footnotes to the financial statements. Superfund mixed funding settlements are negotiated between EPA Regional Attorneys, Department of Justice Attorneys, and the PRP. The Consent Decree or Administrative Orders on Consent are signed by those parties and lodged in District Court. Once the settlement agreements are entered in court, copies of the settlement agreements are forwarded to headquarters. According to Superfund program officials, mixed funding settlement agreements are not tracked in an automated tracking system. The Superfund programs' Legal Advisor is responsible for manually tracking the agreements. Although the controls for identifying and recording the mixed funding agreements are diversified, we believe this disclosure has been satisfactorily made in the financial statements.

#### RECOMMENDATION

7.0 We recommend that the Acting CFO work with the Assistant Administrator for Enforcement and Compliance Assurance, Acting Assistant Administrator for Administration and Resources Management, and the Office of General Counsel to jointly develop policies and procedures for tracking and annually reporting the Agency's environmental liability.

#### AGENCY COMMENTS AND OIG EVALUATION

The Acting CFO agreed with our recommendation. Her staff plans to work with the responsible offices to develop procedures to capture this information. The target date for issuance of the final procedures is July 1998. We concur with the Agency's planned corrective actions in this area.

Although the Agency disclosed preauthorized mixed funding settlements in the fiscal 1997 financial statements, Agency managers do not believe that these agreements meet the criteria for reporting a liability. We believe that this information should be disclosed since it provides the reader with a more complete picture of the Superfund program's financial position.

## **REVENUE WAS NOT PROPERLY RECORDED ON SUPERFUND STATE CONTRACTS**

During fiscal 1997 and prior years, regional finance officials did not properly recognize revenue on Superfund State Contracts (SSC). We audited the state cost share analysis and year-end adjusting entries at six of ten regional finance offices. Although policies and procedures were developed, and a uniform analysis was implemented to ensure revenue was properly recognized on earned state cost shares, we found regional personnel encountered several difficulties that caused SSC accounts to be misstated by nearly \$29 million at the six regions.

When EPA assumes the lead for a Superfund remedial action, a state's role in the action is set forth in an SSC. The SSC is a contract that ensures state involvement and obtains state assurances as mandated under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA). CERCLA, as amended by the Superfund Amendments and Reauthorization Act of 1986 (SARA), requires the state to provide a ten percent (10%) cost share for remedial actions at privately owned sites and at least a fifty percent (50%) cost share for all response activities at publicly operated sites. In accordance with Agency policy, EPA must bill the state for its cost share as provided by the SSC. At the time of the billing, EPA records an advance (unearned revenue). As EPA expends efforts to clean up the SSC sites, the unearned revenue should be reduced, and the Agency should recognize revenue.

Comptroller Policy 95-06, EPA Accounting Policies and Procedures for Superfund State Contracts, and fiscal 1997 FMD Year-end Closing Instructions, prescribe recognizing revenue on the state cost share as a percentage of expended dollars to estimated total costs as indicated in the SSC. Officials in each finance office should calculate a completion ratio (site expenditures as a percentage of the SSC) for each SSC and apply the ratio to each state cost share to determine the amount of each share that has been earned. The finance personnel should record year-end adjusting entries to recognize revenue for the appropriate amount of each state cost share that has been earned. The offset to the revenue recognition should be a decrease in the advance (unearned revenue) account, to the extent available, or unbilled accounts receivable if the earnings have not been billed or collected.

As reported last year, we still believe that one of the more significant difficulties encountered by regional personnel was their not understanding the adjustments, particularly the balance sheet components of the entries. The offset to the revenue recognition could be the reduction of an advance, an increase in unbilled receivables, or both, depending on the actual billing for the site.

Additionally, in response to last year's audit recommendation, FMD developed a standard report to summarize SSC disbursement data needed to more accurately determine completion percentages on each SSC site. FMD officials recognized that fine tuning this analytical data could result in changes to prior years' completion percentages and that prior period adjustments could result. To simplify the regions' efforts in this troublesome area, they were not tasked with making adjustments to prior years' revenue. Rather, adjustments were to be made at headquarters after the regional data, analyses, and adjustments were audited. Consequently, material adjustments to several SSC related accounts were needed to fairly present the financial statements.

We also found that one region inappropriately recorded accounts receivable of \$5.9 million. They recorded receivables on a series of SSCs for the entire SSC even though the agreements were set up to bill incrementally as certain milestones were met. As a result, accounts receivable and advances were overstated.

### RECOMMENDATION

8.0 We recommend the Acting CFO continue working with regional finance officials to further their understanding of the adjustments and how to utilize the spreadsheet analysis as a tool for determining necessary adjustments.

### AGENCY COMMENTS AND OIG EVALUATION

The Acting CFO agreed with our recommendation. Her staff plans to hold a training session during July 1998, specifically for regional personnel who work with SSC billing and revenue activity. The focus of the training will be SSC events and their general ledger impact, in addition to the proper utilization of the SSC account analysis and how it relates to posting the accruals. We concur with the Agency's planned corrective actions in this area.

## **AUTOMATED APPLICATION PROCESSING CONTROLS FOR THE INTEGRATED FINANCIAL MANAGEMENT SYSTEM COULD NOT BE ASSESSED**

We continue to be unable to assess the adequacy of the automated internal control structure as it relates to automated input, processing, and output controls for the Integrated Financial Management System (IFMS). IFMS applications have a direct and material impact on the Agency's financial statements. Therefore, an assessment of each applications' automated input, processing, and output controls, as well as, compensating manual controls, is necessary to determine the reliance we can place on the financial statements.

During past financial statement audits, we attempted to evaluate controls without documentation, but these alternatives proved to be inefficient and impractical considering available resources. Program level flowcharts or similarly descriptive narrative system documentation were not available. The IFMS Users' Manuals and other EPA contractor's baseline product Federal Financial Systems manuals do not contain the level of detail necessary to construct tests of automated internal controls which would satisfy our field work standards.

The Agency disagreed with the conclusions and recommendations made in our report, "Fiscal 1995 Financial Statement Audit of EPA's Trust Funds, Revolving Funds and Commercial Activity," dated May 3, 1996. They maintained that sufficient documentation existed in the Change Management System and stated that the OIG's opinion was restricted by its definition of acceptable documentation. However, as a result of the fiscal 1995 report, we provided samples of documentation and flowcharts for two other EPA systems to Financial Management Division (FMD) and Enterprise Systems Division representatives. In turn, the Agency requested the programming contractor to review the "model" documentation and determine whether such documentation could also be developed for IFMS. The Agency also requested the contractor survey the IFMS data and evaluate the scope of data elements to include in a data dictionary.

As we reported in our audit report, entitled "Audit of EPA's Fiscal 1996 Financial Statements", issued March 24, 1997, the Agency agreed to complete several corrective action items by September 30, 1997. The system documentation items included: a system documentation analysis, draft accounts receivable documentation, OIG approval of the draft documentation, and documentation for OIG selected transactions in other modules. In addition, the Agency agreed to take actions related to the implementation of a comprehensive data dictionary, including a scope and responsible party definition, cost estimates and entry of IFMS metadata into the EPA Data Register. The Agency completed the system documentation analysis, the draft accounts receivable documentation, and a review of the scope for a data dictionary. All the other items remain open. We are continuing to work with FMD personnel to resolve these items. The accounts receivable documentation was received by the Agency on September 30, 1997. We plan to evaluate it as a part of our fiscal 1998 financial statement audit.

The contractor also conducted an analysis for an IFMS data dictionary, the development of which was estimated to be costly and subsequently put on hold. The analysis described a system of over 650 tables, each with an average of 20 data elements for an estimated presence of 13,000 data elements for the entire system. Due to its importance and complexity, IFMS has been targeted for

inclusion in the Agency's Environmental Data Registry (EDR). The analysis identified EDR inclusion as a benefit because it would assist in the standardization of data which has the potential to reduce the cost of information-sharing and data updates. In our opinion, this benefit would apply to the current financial systems and any replacement systems. The contractor's analysis also stated that without a data dictionary, EPA's IFMS would continue to have the potential for data redundancy and questions about the types of data in IFMS. No decision has been made to fund the data dictionary to date.

We anticipate that FMD will proceed with the the following steps toward the development of sufficient documentation for assessment: (1) fund the data dictionary development, and (2) fund the development of system documentation for the remaining IFMS modules after we complete our evaluation of the accounts receivable documentation. We believe that the cost for each of these two projects will exceed the Agency's \$100,000 funding threshold for systems development and, thus, each will require a decision paper in order to proceed.

#### AGENCY COMMENTS AND OIG EVALUATION

The Acting CFO stated that her office continues to believe existing documentation is sufficient to support ongoing operation and maintenance of IFMS. She also stated that the benefits of additional documentation do not justify the costs to develop and maintain it. Further, it would not be economical to make major IFMS cost investments which could not be recovered within the next several years because the Agency will be initiating a system replacement project for IFMS.

We agree that IFMS is a mature system which has been in operation since 1989. We also believe a more manageable and cost effective approach to systems change control would have been to establish a system software baseline in 1989, including detailed system documentation and a data dictionary. At this time, it would probably cost about \$1,000,000 to document the IFMS modules and \$250,000 to create a data dictionary. The existing IFMS is a highly customized version of the off-the-shelf software, and contains over 650 tables and 13,000 data elements. The contractor noted that the system most likely includes significant data redundancy. The lack of Agency standard financial system data elements is resulting in increased system operational costs to: share information within EPA and with other organizations; update and maintain the financial systems; and integrate data across the Agency's financial management systems. In our opinion, a cost benefit analysis of the core financial systems will support the need for a more efficient and economical system, but the OIG has not seen any formal actions to initiate a replacement of the financial systems. We expect IFMS will be used for several more years before a replacement system will be funded, developed, and put into operation. If the Agency is serious regarding this decision, then we would expect the CFO's office to formally set up a system replacement project by: (1) assigning staff and establishing a schedule, (2) preparing an information technology capital investment budget request, and (3) approving a formal decision paper. Without a cost benefit analysis, we cannot agree that it would not be economical to make further major investments in the existing system.

While we acknowledge that management can decide against developing the system documentation, we continue to believe that, because of significant future benefits, management

should reconsider its decision on: (1) developing and maintaining an IFMS data dictionary and (2) adopting data standards for the Agency's financial management systems. We believe developing and maintaining a data dictionary would have significant future benefits for a replacement system, which would be economical and could be recovered over time. When IFMS was implemented in 1989, one of the major problems was conversion of data from the old system. Problems converting data to a replacement system could be minimized with an accurate data dictionary and data standardization. Considering industrial trends, it is likely that the replacement system will be a real-time, distributed database system. This type of replacement system would need a data dictionary and data standards. After conversion of the data, the replacement system should also address data base controls such as a naturalization process. Naturalization is a process which improves data integrity in real-time databases by eliminating data element redundancy and improving efficiency of the operations by grouping data in tables by relationships.

**COMPLIANCE WITH LAWS AND REGULATIONS**

**TABLE OF CONTENTS**

	<u>Page</u>
10 - EPA IS NOT IN SUBSTANTIAL COMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS .....	3-1
11 - EPA IS NOT COMPLYING WITH APPROPRIATIONS LAW WHEN DISBURSING GRANTS FUNDED WITH MULTIPLE APPROPRIATIONS .....	3-8

## **EPA IS NOT IN SUBSTANTIAL COMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS**

Our audit work disclosed the following instances where EPA's financial management systems, as of September 30, 1997, did not substantially comply with the requirements for Federal financial systems:

- The Agency's Core Financial Systems<sup>5</sup> and EPAYS did not have required management controls, including approved formal decision papers and system plans, to provide reasonable assurance that Year 2000 activities will be completed before the systems are subject to failure.
- Financial Management Division (FMD) management had not established appropriate levels of management review for approval or disapproval of system development or enhancement / replacement projects associated with the Year 2000, as required by EPA Policy Directive 2100, Chapter 17, System Life Cycle Management.
- The Agency's Core Financial Systems and EPAYS did not have application security plans, as required by OMB Circular A-130, Management of Federal Information Resources, Appendix III (February 1996).
- There were no assurances that the fiscal 1996 financial systems annual inventory data, required by OMB Circular A-127, Financial Management Systems, and OMB Circular A-11 Section 15.5, was consistent, comparable and accurate.
- Significant system changes in the financial systems inventory were omitted from the Chief Financial Officer (CFO) Five Year Plan annual update, dated October 1996. Per OMB Circular A-127, the plan must be updated annually.

We acknowledge that the Office of Administration and Resources Management (OARM), through its fiscal 1997 FMFIA process, has reported Agency security plans as a material weakness and Year 2000 Date Conversions as an Agency-level weakness.

### OMB Year 2000 Requirements for Financial Systems Activities

As of September 30, 1997, the Agency's Core Financial Systems and EPAYS did not have required management controls, including an approved formal decision paper and system plan, to provide reasonable assurance that Year 2000 activities will be completed before the systems are subject to failure. The majority of EPA's financial management systems were several months past OMB's June 1997 "assessment phase" deadline. In addition, to prevent system failures stemming from multi-year funding calculations, EPA needs to implement Year 2000 fixes during fiscal 1998, rather than by the November 1999 OMB deadline. Year 2000 enhancements for EPA's Core

---

<sup>5</sup> The Core Financial System is composed of the Integrated Financial Management System (IFMS), the Combined Payroll Redistribution and Reporting System (CPARS), and the Management Accounting and Reporting System (MARS). The other principal financial systems in the financial systems inventory are the EPA Payroll & Personnel System (EPAYS) and Contracts Payment System (CPS).

Financial Systems are currently scheduled for completion by July 31, 1998. The Year 2000 enhancement for EPAYS is scheduled for completion by January 1, 1999.

The Acting Director of the Financial Management Division (FMD) advised us that they have made substantial progress on the Year 2000 effort and that FMD management has always considered the Year 2000 effort a high priority. He reported that the supporting contractor was currently coding changes for IFMS and expected to start coding changes for all Core financial systems in December 1997. The Acting Director believes that they are on schedule to complete the Year 2000 changes by July 31, 1998 for the Core financial systems and EPAYS by January 1, 1999. However, the contractor for the Core Financial Systems noted in a November 1997 message, that they had just completed a revised Year 2000 project plan for IFMS which could handle changes in scheduling as needed, but also stated the schedule was ambitious and very tight. The slightest delay could cause the implementation date to slip. Thus, we believe there is a high risk of disruption to financial systems operations critical to EPA's mission. For example, there was no management formal decision paper or approved system plan addressing the approach to complete the Year 2000 fixes for EPA's financial systems during fiscal 1998. This lack of oversight and approval by top management could potentially result in a disruption of accounting and disbursing, including EPA's payroll.

Further, despite assurances from the Acting Director, FMD about the contractor's schedule concerning Year 2000 fixes, we note that the initial schedule for implementing Year 2000 fixes for IFMS has slipped, and we are concerned that the schedule may slip again. We are also concerned that EPAYS may experience failure with Year 2000 compliance as two year funding will also affect this system effective October 1, 1998, and Year 2000 enhancements for the system are not scheduled for completion until January 1, 1999.

#### Year 2000 Maintenance Activities For Financial Systems

Maintenance projects for Year 2000 fixes exceeded dollar thresholds without obtaining required management approvals. FMD management has not established appropriate levels of management review for approval or disapproval of system development or enhancement / replacement projects, as required by EPA Policy Directive 2100, Chapter 17. As of September 30, 1997, formal decision papers and system plans for Year 2000 fixes had not been approved by EPA management, although such decision papers should have been approved at the end of the analysis phase for the Core Financial Systems and EPAYS.

EPA Directive 2100, Chapter 17, which is the Agency's implementation of Circular A-130, requires appropriate levels of management review for approval or disapproval of system development or enhancement / replacement projects exceeding \$100,000. The Directive contains the following requirements. The management reviews shall occur, at a minimum, at the end of each stage of the generic life cycle, as implemented for the chosen methodology. These management decisions will be documented by signatures on formal decision papers. The Directive also requires that formal decision papers and system plans be developed at the end of the analysis phase. The formal decision paper and the system management plan should be approved by EPA's IRM Executive Steering Committee and the Director for Information Resources Management (IRM), if the system is part of the Agency Core Financial Systems and exceeds \$25 million throughout its life or \$5 million annually. In addition, the plan should be

approved by the Assistant Administrator of the responsible program office, if the system is part of the Core Financial Systems and exceeds \$10 million throughout its life or \$1 million annually. The formal decision paper and system management plan should be approved by Senior IRM Officials for all other development/enhancements exceeding \$100,000. We believe that the Agency plans to spend more than \$1 million on Year 2000 fixes for the core financial systems, thereby requiring formal approval by the Acting CFO.

### Financial Systems Security

As of September 30, 1997, the Agency's Core Financial Systems and EPAYS did not have application security plans, as required by OMB Circular A-130, Appendix III (February 1996). OMB Circular A-130 states that a formal risk assessment is no longer required, but the determination of adequate security should use a risk-based approach. Several risk assessments of these systems were done during the past three years. The recent risk assessments also identified the need to develop application security plans, but, as of September 30, 1997, plans had not yet been drafted or approved by management to officially authorize the use of the system, as required by OMB Circular A-130. In addition, the OIG report on "Security of Small Purchase Electronic Data Interchange (SPEDI) Local Area Networks (LANs)" dated July 18, 1997, reported that the SPEDI application and LANS had significant shortcomings in security and needed improvement. One of the major concerns reported was a lack of security plans for application and general support systems. We also performed security and environmental controls reviews of facilities at Research Triangle Park, Cincinnati, Chicago, New York, San Francisco, Philadelphia and Boston. None of the sites had a formal security plan which addressed the full complement of OMB requirements.

### Financial Systems Inventory Data

As of September 30, 1997, there were no assurances that the fiscal 1996 financial systems annual inventory data, required by OMB Circular A-127 and OMB Circular A-11 Section 15.5, was consistent, comparable and accurate. OMB Circular A-11, Section 15.5, requires the Agency to submit an annual inventory of financial systems to OMB. A July 15, 1996 OMB Memorandum provides guidance for updating information on the Financial Management Systems Inventory during fiscal 1996, and requires submission of updated information by October 15, 1996. This guidance states that the purpose of the inventory is to meet the OMB Circular A-127 requirement for maintaining a financial management systems inventory. This document also requires that this annual inventory report be prepared and reviewed at the Department level to ensure consistency, comparability, and accuracy of data, as well as comparability of data within the Agency CFO Financial Management Report and Five Year Plan 1994-1999. EPA's November 1, 1996 annual inventory report to OMB identified a total of 16 financial systems for the inventory at the start of fiscal 1997. We reviewed all 5 principal financial systems included in the report submitted to OMB<sup>6</sup> and found the systems were not verifiable to supporting records. We understand that the Agency followed the same process when submitting its 1997 annual inventory update to OMB.

### Annual Update of CFO Management Report and Five Year Plan

---

<sup>6</sup> Systems reviewed were the Core Financial Systems, EPAYS and CPS. These are the principal financial systems in the financial systems inventory.

Significant system changes in the financial systems inventory were omitted from the annual update of the CFO Financial Management Report and Five Year Plan 1994 - 1999, dated October 1996, which is required by OMB Circular A-127. The fiscal 1996 financial systems inventory data has significantly changed since management approved EPA's CFO Financial Management Report and Five Year Plan 1994 - 1999, dated August 1994. The November 1996 annual inventory report submitted to OMB identified five new systems being added to the inventory and four systems being eliminated from the prior fiscal year inventory. However, the annual update to the CFO Financial Management Report and Five Year Plan, dated October 1996, did not include these changes to the original financial systems inventory. The annual update is the only system planning document currently reviewed and approved by top Agency management.

We do not believe that the accuracy of inventory data or the annual update to the CFO's five-year plan should be considered a "material" concern, but these are compliance issues for the Agency financial systems. Inventory data should also be used by EPA system managers for planning and establishing measurable metrics of financial systems operations. Furthermore, the updates to the annual CFO plan should include all major changes to provide a formal planning process which establishes accountability of financial system managers. Both the CFO and OMB use these documents to make decisions and manage EPA's financial systems, and they need accurate and complete data to do so. Omitting significant information about financial systems is not acceptable. OMB requires and should expect EPA to provide reports that are consistent, comparable and accurate.

#### Adequate Controls Were Not Implemented

Adequate controls were not implemented by the Office of the Chief Financial Officer (OCFO) to ensure that the current management oversight of system planning, and upgrade and maintenance operations for financial systems provided substantial compliance with Agency and OMB financial management system requirements. In our opinion, the reorganization of OARM and the newly created OCFO in fiscal 1997 resulted in unclear responsibilities for establishing management controls over financial management systems. The Executive Management Group and the System Management Group, which previously provided the primary management and oversight over financial management systems, were not reestablished after the reorganization.

While we acknowledge that many efforts are underway concerning the above issues, we believe that a remediation plan, including the identification of milestone dates for completing anticipated actions and the specific offices that are responsible for completing actions, is needed to ensure that management attention is focused on these important issues. We also acknowledge that some of these issues may have been resolved by the date of this audit report, however, we are reporting compliance as of September 30, 1997. For example, on January 26, 1998, we received IFMS, MARS and CPARS Security Plans dated December 1997. Finally, we acknowledge the pending receipt of additional documentation providing decision memorandums and implementation plans for some of the above issues, however, the documentation will be received too late for us to audit it as a part of this audit. We will review the adequacy of this documentation as part of our audit of the fiscal 1998 financial statements.

#### RECOMMENDATION

- 10.0 We recommend that the Acting CFO direct the Director, Financial Management Division (FMD) to:
- 10.1 develop a remediation plan which includes resources, remedies and intermediate target dates to bring the Agency into substantial compliance with Agency, OMB and FFMIA requirements;
  - 10.2 follow existing EPA policy for System Life Cycle Management;
  - 10.3 with the assistance of the Office of Information Resources Management, ensure that application security plans are developed, approved and implemented for all of the OCFO's financial management systems;
  - 10.4 implement policies and procedures where necessary to ensure appropriate FMD oversight of system planning, and upgrade and maintenance operations for financial systems;
  - 10.5 ensure that the financial systems annual inventory data required by OMB is consistent, comparable and accurate; and
  - 10.6 ensure that the annual update of the CFO Financial Management Report and Five Year Plan submitted to OMB includes all significant system changes in the financial systems inventory.

#### AGENCY COMMENTS AND OIG EVALUATION

In responding to the draft report, the Acting CFO disagreed with our conclusion that EPA's core financial systems are not in substantial compliance with FFMIA requirements, and maintained that a formal remediation plan is not necessary. She stated that although the formal documentation steps should have been followed, the missing documentation did not materially affect the outcome because other effective controls and procedures were in place. With respect to formal documentation, she stated that they have either initiated or completed the necessary corrective actions and formal steps called for in the appropriate EPA directives. For example, the core application systems security plans were completed and approved on January 16, 1998. The EPAYS and Employee Express application security plans were completed and approved on January 26, 1998. Further, she indicated that the Agency has adequate management oversight of maintenance activities, but it will revise the out of date SMG and EMG charters for management oversight. In addition, her office will: (1) provide more complete guidance to the system managers regarding the information requested on the financial systems inventory, and (2) include the system inventory in future CFO Five-Year Plans.

We believe the most appropriate approach is to recognize the work done, and incorporate completed actions and future corrective actions into a remediation plan to bring the Agency into substantial compliance with Agency, OMB, and FFMIA requirements. Then our office will review and report on the Agency's progress in the OIG semi-annual report, as required under FFMIA. We agree that the Agency's actions generally meet the intent of our recommendations, but we continue to believe that the Agency was not in substantial compliance during fiscal 1997.

At the time of our review, the financial systems' managers had not yet updated their security plans, and the Agency had declared security plans a fiscal 1997 FMFIA material weakness. The Agency also declared the Year 2000 area a fiscal 1997 Agency-level FMFIA concern. At that time, the financial systems Year 2000 changes were not on schedule, nor did the changes have formal management approval. Whereas, we recognize that significant work was done to address our concerns during the past four months, additional actions are scheduled for completion over the next several months. Finally, the adequacy of these corrective actions will need to be evaluated and that will require significant audit effort.

Concerning the Year 2000 issue, the Acting CFO stated that OCFO and OIRM management were kept informed of the financial systems Year 2000 plans, costs and progress. An IFMS Year 2000 decision paper was prepared and approved, and a similar Year 2000 decision paper for EPAYS is planned. Furthermore, all of the OCFO financial management systems are currently in compliance with OMB milestone dates, and are "on schedule" to implement the core system Year 2000 changes by August 15, 1998. In addition, the Acting CFO stated that there was a misunderstanding regarding the critical date for implementing the EPAYS Year 2000 enhancement. She stated the critical date was not October 1, 1998, because the two-year funding field in EPAYS is only a data entry field. Therefore, the critical date for EPAYS is October 1, 1999, when fiscal year 2000 begins.

At the time of the OIG review, Year 2000 compliance activities were several months behind OMB's schedule. At that time, the only OMB deadline date which could have been missed was the assessment phase, which was to be completed by June 1997. In August 1997, EPA reported IFMS (including CPARS and MARS) as one system. Since the CPARS and MARS analyses were not completed until September 1997, we considered the September date to be the true IFMS completion date, even though the IFMS portion was completed earlier. EPAYS (including TAPP and Employee Express) was also reported to OMB as being one system, and analysis documents were not completed until September 1997. We consider the lack of formal decision papers as a serious lack of management control over financial systems maintenance. Upon completion of the analyses documents, Agency policy requires that a decision paper be prepared for a formal management decision regarding the approach to establish proper accountability and oversight. However, contractors were instructed to work on significant system changes without a formal approval. These changes included developing detailed Year 2000 remediation work plans, coding software changes and starting unit testing. Subsequent to disclosing our audit findings, on February 2, 1998, the decision memorandum addressing IFMS (including MARS and CPARS) was approved. However, there is still no decision memorandum addressing EPAYS and its subsystems.

Until management approves a formal decision paper for EPAYS/TAPP, we are obliged to maintain that management has not yet completed significant oversight actions. FMD management stated that EPAYS will not experience failure with Year 2000 compliance on October 1, 1998, as two year funding will not affect this system on that date. To circumvent the problem, EPAYS will access a new IFMS table to retrieve and verify the validity of multi-year appropriation account numbers. This planned approach addresses some of our concerns by not modifying the account code number in EPAYS/TAPP for multi-year funding. Our review of the EPAYS/TAPP analysis document, dated September 12, 1997, did mention maximizing the use of tables for external tables, but the document also raised concerns regarding the need to modify the EPAYS

file structure to correctly process the new expanded 41 digit account number. We continue to believe there is an integrity risk to EPAYS when the IFMS system changes, currently scheduled for July 1998, are placed into production, considering that EPAYS/TAPP will be inconsistent with account code numbers and dependent on an IFMS table for appropriation account numbers.

## **EPA IS NOT COMPLYING WITH APPROPRIATIONS LAW WHEN DISBURSING GRANTS FUNDED WITH MULTIPLE APPROPRIATIONS**

EPA provides funds to some recipients through assistance agreements funded by more than one appropriation (multiple-funded grants). During fiscal 1997, EPA disbursed \$ 304,247,000 on 1,103 multiple-funded grants. Awarding multiple-funded grants may be appropriate in some cases. However, current EPA guidance does not require recipients to identify the funding source on their payment requests. In addition, some agreements do not provide recipients instructions on how to charge costs in each payment request to the various appropriations, such as on a pro rata basis, when the recipient performs activities benefitting more than one appropriation. In those instances where recipients of multiple-funded grants do not provide information on their payment requests about which appropriation benefitted from the work performed, EPA's Las Vegas Financial Management Center and some regional finance offices use a First-In-First-Out method (FIFO) to disburse funds. When the FIFO method is used, the initially awarded funds on the agreement are used first regardless of which appropriation benefitted from the work performed. Then each subsequent award of funds is used. Thus, as disbursements are made throughout the year a misstatement of expenses among the Agency's appropriations could occur.

EPA issued Office of the Comptroller Transmittal No. 97-08 in January 1997. This new guidance was issued to rectify the use of the FIFO method through the use of a year-end adjustment for financial statement presentation purposes only. This guidance reallocates disbursements recorded for all active multiple-funded grants. The reallocation is based on a percentage of unpaid obligations for each appropriation account. For all multiple-funded grants, a percentage for each appropriation is determined by adding the unliquidated obligations at the beginning of the year plus any current year obligations divided by the total for all appropriations cited for that grant. The computation is made on a grant-by-grant basis and is summarized at the appropriation level. The adjustment is made for financial statement purposes only and is not recorded in the general ledger. The adjustment for fiscal 1997 had the following effect on the financial statements; it increased State and Tribal Assistance Grants expenses by \$4,868,000, decreased Superfund expenses by \$4,045,000, and decreased All Other expenses by \$823,000.

While these adjustments are not material in relation to the fair presentation of the financial statements, EPA's year-end adjustment methodology does not guarantee that it does not violate 31 U.S.C. 1301. A possibility exists, on a grant-by-grant basis, that a recipient's performance during the fiscal year would proportionately benefit the appropriations funding such performance, such that EPA's practice might yield accurate results. If no other rational basis existed, this method would be appropriate. Nevertheless, another equally viable possibility exists in which the recipient's performance could benefit one appropriation to a much greater extent than EPA's adjustment reflects. As such, when work performed under a grant can be identified as specifically benefitting a single appropriation, application of this methodology does not ensure that the proper appropriation will be charged. Thus, in these cases, since EPA cannot match disbursements to the benefitting appropriation, EPA does not comply with Title 31 U.S.C. 1301, which requires that EPA match disbursements to the benefitting appropriations. Specifically, it states, "Appropriations shall be applied only to the objects for which the appropriations were made

except as otherwise provided by law.” We have consulted with Agency legal counsel, and they are supportive of this position.

EPA has draft guidance which, if finalized and implemented, could enable the Agency to comply with 31 U.S.C. 1301. The new guidance would require grant recipients to separately account for and bill EPA based on each project or activity, so grantee costs could be matched to the benefitting appropriations. If EPA cannot clearly assign the work to be performed to a specific appropriation, the new guidance would require that grantees request payment on a pro rata basis.

Implementing this guidance would only bring newly awarded grants into compliance. Meanwhile, EPA will continue to make disbursements on previously awarded grants based on the FIFO method until these grants are completed. As such, EPA will continue to not comply with 31 U.S.C. 1301 until all previously awarded grants are closed out.

### RECOMMENDATION

11.0 We recommend that the Acting CFO and Acting Assistant Administrator for Administration and Resources Management finalize and implement guidance for awarding and disbursing multiple-funded grants that complies with Title 31 U.S.C. 1301.

### AGENCY COMMENTS AND OIG EVALUATION

In responding to the draft report, the Acting CFO stated that our draft audit report implied that EPA’s Office of General Counsel (OGC) had issued a formal opinion on the appropriateness of multiple appropriation funded grants. She indicated that the issue is still under discussion within OGC, and OGC attorneys have contacted OMB’s Office of General Counsel to discuss the matter further. They are awaiting a response from that office. The Acting CFO believes that due to the absence of an official OGC opinion our audit report should not contain this noncompliance issue. As a result, the related recommendation should also be eliminated.

We did not intend to imply that we had received an opinion from the OGC. However, as noted above, we have consulted with Agency legal counsel, and they are supportive of our position. Therefore, we continue to believe the Agency needs to finalize its draft guidance for awarding and disbursing multiple-funded grants.

# STATUS OF PRIOR AUDIT REPORT FINDINGS

## TABLE OF CONTENTS

	<u>Page</u>
AUDIT OF EPA'S FISCAL 1996 FINANCIAL STATEMENTS .....	4-1
FISCAL 1995 FINANCIAL STATEMENT AUDIT OF EPA'S TRUST FUNDS, REVOLVING FUNDS AND COMMERCIAL ACTIVITY .....	4-5
FISCAL 1994 FINANCIAL STATEMENT AUDIT OF EPA'S TRUST FUNDS, REVOLVING FUNDS AND COMMERCIAL ACTIVITY .....	4-8
FISCAL 1993 FINANCIAL AUDIT; SUPERFUND, LUST, AND ASBESTOS LOAN PROGRAM .....	4-10
FISCAL 1993 FINANCIAL AUDIT; PESTICIDES REVOLVING FUNDS AND THE OIL SPILL TRUST FUND .....	4-12
FISCAL 1992 FINANCIAL AUDIT; SUPERFUND, LUST AND ASBESTOS LOAN PROGRAM .....	4-13
FISCAL 1992 FINANCIAL AUDIT; PESTICIDES REVOLVING FUNDS .....	4-14
FISCAL 1991 FINANCIAL AUDIT; HAZARDOUS SUBSTANCE SUPERFUND .....	4-15

**STATUS OF PRIOR AUDIT REPORT FINDINGS**

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
<b>AUDIT OF EPA'S FISCAL 1996 FINANCIAL STATEMENTS</b> (Audit Report E1AML6-20-7001-7100120, Issued 03/24/97)			
<b>EVALUATION OF INTERNAL CONTROLS - MATERIAL WEAKNESSES:</b>			
<b>1.0 ACCRUALS FOR UNBILLED SUPERFUND OVERSIGHT COSTS COULD NOT BE AUDITED</b>	We believe that both recommendations should be consolidated into one recommendation with one corrective action plan.		
<b>1.1 Recommend that the Acting Chief Financial Officer establish a working group of regional and headquarters finance officials to determine how to best define the population of recoverable Superfund oversight costs.</b>	- Discuss options among Headquarters and regional finance and program staff to determine an acceptable methodology for estimating unbilled oversight costs at year-end (This will occur at the National Cost Recovery Conference).	04/30/97	Completed 04/10/97
<b>1.2 Recommend that the Acting Chief Financial Officer establish a working group of regional and headquarters finance officials to determine how to estimate the amount of recoverable Superfund unbilled oversight costs to be accrued at year-end.</b>	- Present proposed methodology at the Financial Management Workshop. - Issue proposed methodology to ARAs for comment. - Issue final methodology which is incorporated into year-end instructions.	05/31/97 06/30/97 08/15/97	Completed 05/17/97 Completed 06/30/97 Completed 07/02/97
<b>OIG NOTE: Please refer to our FY 97 audit report, Attachment 1 on Material Weakness for additional comments on this issue.</b>			
<b>2.0 COMPONENTS OF SUPERFUND NET POSITION COULD NOT BE AUDITED</b>	<b>OIG NOTE: Repeat finding. Corrective action plans already established based on prior OIG recommendations . See pages 5 and 6 below for current status.</b>	.....	<b>OIG NOTE</b>
<b>3.0 GRANT ACCRUALS COULD NOT BE ASSESSED</b>			
<b>3.1 Recommend the Acting Chief Financial Officer work with the Acting Assistant Administrator for Administration and Resources Management to obtain information that would assist the Agency in estimating its grant accrual expense for presentation in the financial statements.</b>	We have formed a Grant Accrual Workgroup comprised of Financial Management Division, Servicing Finance Office, Grant Administration Division and OIG staffs to examine accrual alternatives and to implement an acceptable method. - Develop a new accrual methodology.	04/30/97	Completed 04/30/97
<b>OIG NOTE: Please refer to our FY 97 audit report, Attachment 2 on Reportable Conditions for additional comments on this issue.</b>			
	- Implement the new methodology.	07/31/97 09/30/97 (rev) 03/31/98 (rev)	Completed

**STATUS OF PRIOR AUDIT REPORT FINDINGS**

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
<b>EVALUATION OF INTERNAL CONTROLS - REPORTABLE CONDITIONS:</b>			
<b>4.0 FURTHER IMPROVEMENTS NEEDED IN ACCOUNTING FOR AND MANAGING EPA'S ACCOUNTS RECEIVABLE</b>			
<b>Recommend that the Acting Chief Financial Officer:</b>			
<b>4.1 Instruct the FMOs to continue to conduct quality control reviews of the billing and recording of accounts receivable that will help identify parts of the process that are causing delays and improvements that can be implemented to address these delays.</b>	We plan to continue an aggressive quality control review program of the overall management of accounts receivable into the foreseeable future.  - Instruct all FMOs to continue conducting quality assurance reviews of the billing and recording of accounts receivable.	03/30/97	Completed 12/30/96
<b>4.2 Instruct the FMOs to perform periodic reviews of outstanding debts for collectibility and once a receivable is deemed uncollectible, timely initiate write-off procedures.</b>	- Direct all FMOs to perform periodic reviews of outstanding accounts receivable for collectibility and initiate appropriate actions.	04/30/97	Completed 04/30/97
<b>4.3 Coordinate with ORCs and DOJ to reemphasize the importance of timely providing necessary documents to FMOs, so accounts receivable can be accurately and timely billed and recorded.</b>	We will emphasize to the ORCs and DOJ their accounts receivable responsibilities, especially those offices involved in the particular examples cited by OIG.  - For Superfund accounts receivable, discuss the importance of accounts receivable at one of the OECA-sponsored bi-monthly conference calls with the Superfund branch chiefs.  - Issue a joint OECA/CFO memorandum to the Regional Counsels summarizing the methods available to track accounts receivables and emphasizing the importance of timely billing and recording.	05/31/97  07/31/97 09/30/97 (rev)	Completed 08/31/97  Open
<b>4.4 Ensure the FMOs follow existing guidance on calculating the allowance for doubtful accounts and accruing interest.</b>	We have and will continue to emphasize the proper procedures for calculating the allowance for doubtful accounts and accruing interest in our instructions for the quarterly review of the allowance for doubtful accounts. We will also expand future quality control reviews to ensure FMOs include reviews of the procedures, and continue to include appropriate training on these subjects in future training workshops.	Quarterly	Closed 04/22/97
<b>OIG NOTE: Please refer to our FY 97 audit report, Attachment 2 on Reportable Conditions for additional comments on this issue.</b>	- Emphasize proper calculation of the allowance for doubtful accounts and accruing of interest in instructions to FMOs for the quarterly review of the allowance for doubtful accounts.	Quarterly	Closed 04/22/97
<b>5.0 FURTHER IMPROVEMENTS IN ACCOUNTING FOR CAPITALIZED PROPERTY NEEDED</b>			
<b>5.1 We recommend that the Acting CFO and the Acting Assistant Administrator for Administration and Resources Management continue to jointly work to strengthen controls designed to ensure that property is timely and accurately recorded in PPAS until such time as the new Fixed Asset System is implemented.</b>	- Complete PPAS Data Corrections . . . . . -1 Target date revised due to unanticipated delays in completing software development and testing. - Convert PPAS to FAS.  -2 Delay was due to slippage in the system conversion due to data corrections.  - Implement the Fixed Asset Subsystem.	04/09/97 05/09/97 -1 05/01/97 06/02/97-1 07/07/97-2  05/19/97 06/13/97-1 07/07/97-2	Completed 04/28/97 Completed 07/14/97  Completed 07/14/97

**STATUS OF PRIOR AUDIT REPORT FINDINGS**

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
<p>5.2 We recommend that the Acting CFO establish written procedural guidance for capitalizing capital and leasehold improvements.</p> <p>OIG NOTE: Please refer to our FY 97 audit report, Attachment 2 on Reportable Conditions for additional comments on this issue.</p>	<p>- Issue FAS Procedures to Account for Capital and Leasehold Improvements. FAS procedures to account for capital improvements were issued on 08/15/97 - OC Transmittal 97-23.</p>	<p>04/17/97 05/30/97 (rev) 08/30/97 (rev)</p>	<p>Completed 08/15/97</p>
<p>6.0 ADDITIONAL ACCOUNT ANALYSIS COULD IMPROVE THE ACCURACY OF THE AGENCY'S FINANCIAL INFORMATION</p> <p>6.1 Recommend that the Acting Chief Financial Officer continue to emphasize the importance of analytical reviews to the FMOs and continue to provide account analysis guidance to help them better use general ledger account information.</p> <p>OIG NOTE: Despite continuing EPA management efforts to correct long-standing problems in the financial management area, many similar problems from our fiscal 1994 audit remain. In an effort to better understand the actions needed to correct problems in this area, effective fiscal 1998, the CFO has required Senior Resource Officials to report management statistics against new performance measures. The performance measures will help ensure program offices verify the accuracy of financial data captured in the official accounting system, IFMS. Please refer to our FY 97 audit report, Attachment 2 on Reportable Conditions for additional comments on this issue.</p>	<p>During fiscal year 1997, we will continue to stress the need to perform general ledger account analyses. We will issue guidance describing all general ledger accounts, and also the relationship of general ledger accounts to Treasury Symbols.</p> <p>- Develop a list of general ledger accounts and descriptions.</p> <p>- Develop a listing of Treasury symbols by category for use in relating general ledger accounts to Treasury symbols.</p> <p>- Conduct a "hands on" interactive general ledger technical workshop for the Agency's financial management offices.</p> <p>- Develop a matrix of general ledger accounts with appropriate Treasury symbol combinations.</p> <p>- Issue guidance for general ledger account and Treasury symbol combinations.</p> <p>- Identify general ledger accounts needing specific guidance.</p> <p>- Develop and issue guidance for specific accounts requiring additional analysis.</p> <p>-1 FMD closed this recommendation in its data base on 08/05/97 citing "This is an ongoing process which constantly requires general ledger accounts that need guidance to be identified and to have guidance developed and issued. Specific guidance has gone out for such areas as Accounts Receivable, Allowance for Doubtful Accounts, Cash, Loans Receivable, and Reclassifications for Obligations."</p>	<p>04/30/97 04/30/97 05/22/97 05/31/97 06/30/97 06/30/97 09/30/97</p>	<p>Completed 04/01/97 Completed 04/01/97 Completed 05/19/97 Completed 04/01/97 Completed 04/01/97 Closed-1 Ongoing Closed-1 Ongoing</p>
<p>7.0 CONTROLS FOR APPROVING INTERAGENCY AGREEMENT INVOICES NEED TO BE IMPROVED</p> <p>7.1 In addition to the recommendations made in our fiscal 1994 audit report, we recommend that the Acting Assistant Administrator for Administration and Resources Management require the Grants Administration Division and Regional Grant Offices to instruct project officers to:</p> <p>(a) inform them when required information is not provided in a timely manner, and (b) help them obtain such information.</p> <p>OIG NOTE: Please refer to our FY 97 audit report, Attachment 2 on Reportable Conditions for additional comments on this issue.</p>	<p>We will revise Module VIII of GAD's Project Officer Training Manual to make clear the need for the Project Officers to get adequate information for approval of payments, and to instruct them to call GAD for assistance if they have any trouble obtaining the required information. The revised paragraph in the Training Manual will read as follows:</p> <p>If another agency does not submit adequate information to support the necessity and reasonableness of a payment, the project officer should notify the other agency of what additional information is required. If the other agency does not then provide the additional information in a timely manner, contact the Grants Administration Division for assistance.</p> <p>In addition, we will distribute a Fact Sheet explaining "payments under IAGs" in classes after April 1, 1997.</p> <p>- Distribute Fact Sheet on IAG Payments in future PO Training classes.</p> <p>- Revise Project Officer's Training Course Manual.</p>	<p>04/01/97 10/01/97</p>	<p>Completed Completed</p>

**STATUS OF PRIOR AUDIT REPORT FINDINGS**

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
<p><b>8.0 SUPERFUND STATE CONTRACT REVENUE WAS NOT PROPERLY RECORDED</b></p> <p><b>8.1 Recommend the Acting Chief Financial Officer develop a standard transaction that will enable each regional finance office to record the proposed fiscal 1996 financial statement adjustments in IFMS in fiscal 1997. The transaction should handle misclassified prior years' revenue as an adjustment to the beginning balance of Appropriated Capital.</b></p> <p><b>8.2 Recommend the Acting Chief Financial Officer provide a uniform analysis that will reasonably estimate SSC account balances. Also, during financial management workshops clarify the types of information necessary to properly perform SSC account analysis and explain how to properly prepare adjusting entries.</b></p> <p><b>OIG NOTE: Please refer to our FY 97 audit report, Attachment 2 on Reportable Conditions for additional comments on this issue.</b></p>	<p>Standardized transactions already exist in IFMS to accomplish this task. We will be working closely with each finance office that has financial statement audit adjustments to assure that the adjustments are processed in IFMS.</p> <ul style="list-style-type: none"> <li>- Work with the finance offices to insure that transactions are processed in IFMS in FY 97 for SSC statement adjustments made in FY 96.</li> <li>- Verify that SSC adjustments are correctly processed in IFMS for each finance office.</li> </ul> <p>We believe that proper guidance can be provided to reasonably estimate SSC account balances both uniformly and consistently. Current year-end closing instructions include detailed written procedures on how to adjust SSC account balances for earned reimbursable revenue under various billing scenarios. These instructions include both the IFMS general ledger transactions and the corresponding general ledger impact.</p> <ul style="list-style-type: none"> <li>- Work with the finance offices to adopt a uniform spreadsheet calculation for SSC earned reimbursable revenue. Reinforce existing year-end procedures with the finance offices at either financial management workshops or with more comprehensive policy guidance. Further, a MARS report for Remedial Action Disbursements was adopted for use in the uniform spreadsheet and is available in MARS for all users.</li> </ul>	<p>06/30/97 09/30/97 (rev)</p> <p>07/31/97 09/30/97 (rev)</p> <p>09/30/97</p>	<p>Completed 09/30/97</p> <p>Completed 09/30/97</p> <p>Completed 09/23/97</p>
<p><b>9.0 AUTOMATED APPLICATION PROCESSING CONTROLS FOR THE IFMS COULD NOT BE ASSESSED</b></p> <p><b>OIG NOTE: Repeat finding from our fiscal 1995 financial statement audit. We again disclosed a reportable condition because the automated processing controls were not sufficiently documented for us to audit. Because corrective actions on this issue were underway, we did not make additional recommendations. Please refer to our FY 97 audit report, Attachment 2 on Reportable Conditions for additional comments on this issue.</b></p>	<p><b>Please refer to page 6 &amp; 7 below for planned corrective actions and the current status on this issue.</b></p>		<p><b>OIG NOTE</b></p>

**STATUS OF PRIOR AUDIT REPORT FINDINGS**

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
<p><b><u>FISCAL 1995 FINANCIAL STATEMENT AUDIT OF EPA's TRUST FUNDS, REVOLVING FUNDS AND COMMERCIAL ACTIVITY</u></b> (Audit Report E1SFL5-20-8001-6100200, Issued 5/3/96.)</p>			
<p><b>3.0 EXPENSES FOR MULTI-FUNDED GRANTS NEED TO BE ADJUSTED TO REFLECT WHICH APPROPRIATION BENEFITTED FROM THE WORK PERFORMED</b></p>	<p><b>AGENCY COMMENTS:</b> In a 07/02/96 response, the Agency stated: We agree with this recommendation. On March 6, 1996 we requested a legal opinion from our Office of General Counsel (OGC) on the propriety of the FIFO method. We have also requested assistance from GAO in arriving at a decision. As of now we are still awaiting a decision from GAO. When we receive GAO's decision, we will proceed to take the necessary action.</p>	N/A	Closed
<p><b>3.1 Recommend that the Chief Financial Officer obtain a legal opinion from the Office of General Counsel regarding whether: (a) it is proper to use the FIFO grant disbursement method, and (b) if it is, whether adjustments are needed at year-end.</b></p>	<p>In a 12/30/96 update, the Agency stated: We have now decided, on a prospective basis, to phase out the FIFO grant disbursement method for charging payments on multi-funded grants. In lieu of this FIFO method, a workgroup, organized by GAD and including OIG representation, agreed to take the actions described in our response to recommendation 3.2 presented below.</p> <p>Also, for the existing multi-funded grants, we will ensure that each appropriation is appropriately charged with the respective benefits from the work performed by developing an allocation method for adjusting total payments to each appropriation at year-end. This adjustment will reflect the original funding allocation justifying the obligation to each appropriation benefitting from the work performed and will reflect the proper costs to each appropriation in our fiscal year-end financial statements. The OIG has concurred with our proposed methodology.</p>	N/A	Closed 12/30/96
<p><b>3.2 Use the Office of General Counsel opinion to develop and implement policies and procedures for accounting for disbursements for multi-funded grants.</b></p>	<p>In a 12/30/96 update, the Agency stated: We worked with OGC and have now decided on an appropriate course of action. The GAD will develop and issue a policy that clearly defines the appropriate use of multi-funded grants and will also provide the grantee with instructions for requesting payment to ensure proper accounting by each appropriation. The OIG representatives have concurred with this action.</p> <p>Develop draft policies and procedures.</p>	N/A	Completed
<p><b>OIG NOTE: Please refer to our FY 97 audit report, Attachment 3, Compliance with Laws and Regulations for additional comments on this issue.</b></p>	<p>Circulate draft policy to the appropriate offices and receive comments.</p>	N/A	Completed 12/30/96
<p><b>5.0 COMPONENTS OF NET POSITION ARE NOT RECONCILABLE</b></p>	<p>Revise draft and issue policy. FMD issued Transmittal 97-08 "Expense Allocation Methodology for Multi-Funded Assistance Agreements" on 01/03/97.</p>	01/30/97	Completed
<p><b>5.1 The CFO should make the completion of any Superfund analysis and the resulting reallocation of funds a priority for fiscal 1996. In addition, reconcile any remaining material differences for the fiscal 1996 financial statements.</b></p>	<p>Issue guidance on Superfund State Contract and Cash Out billings and collections recorded in Superfund.</p>	03/15/97	Completed 01/03/97
	<p>Develop report and issue guidance for interest recorded incorrectly in FY 1994 and prior.</p>	N/A	Completed 12/30/96
	<p>Correct interest activity.</p>	N/A	Completed 12/30/96
	<p>Move SSC and Cash Out billings and collections to SSC and Cash Out funds.</p>	01/31/97	Completed 04/30/97
	<p>Analyze pre-1996 Cash Outs recorded in the reimbursable funds and adjust revenue and advances as required.</p>	04/30/97 (rev) 02/28/97 04/30/97 (rev) 04/30/97	Completed 04/30/97 Completed 04/30/97

**STATUS OF PRIOR AUDIT REPORT FINDINGS**

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
<p><b>7.0 ADDITIONAL ACCOUNT ANALYSIS BY FINANCE OFFICES COULD IMPROVE THE ACCURACY OF THE AGENCY'S FINANCIAL INFORMATION</b></p>	<p>Analyze SSC and Cash Out funds, Superfund and the Superfund equity and prepare adjustments.</p>	<p>06/30/97 08/30/97 (rev) 11/23/97 (rev)</p>	<p>Open</p>
<p><b>7.1 Chief Financial Officer emphasize to FMOs the importance of conducting account analysis and provide the FMOs appropriate guidance to help them use general ledger account information.</b></p>	<p>Develop a list of select general ledger accounts and IFMS transactions by general ledger account.</p> <p>Analyze the general ledger and provide additional guidance for selected accounts needing analysis.</p> <p><b>OIG NOTE:</b> See milestone below for "Develop specific guidance for accounts requiring additional analysis."</p> <p>Issue matrix of general ledger accounts and IFMS transactions list to FMOs along with additional accounts receivable guidance.</p> <p>Develop a matrix of general ledger account and Treasury Symbol combinations to determine invalid combinations.</p> <p>Develop specific guidance for accounts requiring additional guidance.</p> <p>Issue revised list of general ledger accounts and IFMS transactions annually.</p> <p><b>OIG NOTE:</b> FMD stated that this information is available on the IFMS Hotline.</p>	<p>06/30/96 07/31/96 09/30/96 08/31/96 06/30/97 (rev) 06/30/97 09/30/97 (rev) 09/30/97</p>	<p>Completed 02/28/96 N/A Completed 08/28/96 Completed 04/01/97 Completed Ongoing N/A <b>OIG NOTE</b></p>
<p><b>8.0 AUTOMATED APPLICATION PROCESSING CONTROLS FOR THE INTEGRATED FINANCIAL MANAGEMENT SYSTEM COULD NOT BE ASSESSED</b></p>	<p><b>AGENCY COMMENTS:</b> In a 07/02/96 response, the Agency stated: We believe that we have sufficient documentation to meet the intent of the OIG recommendation. However, we will continue to work with the OIG staff to resolve our differences on this issue. We have accepted the OIG's request to participate in the testing of our next IFMS subrelease scheduled for July 1996. We have also requested that American Management System (AMS), our programming contractor, review the "model" documentation provided by the OIG to determine whether such documentation could also be developed for IFMS.</p>		
<p><b>8.1 Require minimum IFMS technical documentation which would include a system design, development plan, test plan, test results and other appropriate documents for future enhancements and upgrades.</b></p> <p><b>OIG NOTE:</b> In our fiscal 1997 audit report, we again disclosed a reportable condition because the automated processing controls were not sufficiently documented for us to audit. Because corrective actions on this issue are underway, we have not made any additional recommendations. Please see Attachment 2 for Reportable Conditions.</p>	<p>In a 12/30/96 update, the Agency stated: We are pleased that your staff has agreed to work with us on a project to develop additional system documentation for your staff to use in evaluating the automated application controls in the IFMS. While we believe we have demonstrated that we have sufficient documentation to operate IFMS effectively to meet the Agency's needs, we also acknowledge the OIG's needs to fully understand and develop a working knowledge of IFMS. Due to delays in the EPA FY96 budget and in issuing the FY96 operating plan, funding for the system documentation analysis had been delayed; however, funding has now been made available by the CFO, and we have established milestones for completing this activity.</p> <p>Complete system documentation analysis.</p> <p>Draft Accounts Receivable documentation completed by AMS.</p> <p>Final Accounts Receivable documentation approved by OIG and FMD.</p> <p>Documentation for OIG selected transactions in other modules completed by AMS.</p>	<p>12/31/96 01/30/97 09/30/97 (rev) 03/15/97 11/15/97 (rev) 09/30/97 TBD</p>	<p>Completed 03/07/97 Completed 09/30/97 Open Open</p>

**STATUS OF PRIOR AUDIT REPORT FINDINGS**

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
<p><b>8.2</b>      <b>Establish a plan and schedule to implement a comprehensive data dictionary.</b></p>	<p><b>AGENCY COMMENTS:</b> In a 12/30/96 update, the Agency stated: The Enterprise Information Management Division has established, at the agency level, a Data Register for program system metadata that would be accessible via the World Wide Web on the Internet. It is our intention to place the IFMS metadata into the EPA Data Register. We believe that this is a viable alternative solution for our data dictionary needs, for both the short and long term. It also broadens our view and interpretation on what a data dictionary is, and moves us closer to what the agency is doing, in the area of integrated agency level metadata sharing on the EPA Register. This activity will put us at the forefront as the agency evolves in this new direction.</p> <p>Completion of scope and responsible party definition.</p> <p>Completion of associated cost estimates.</p> <p>Entry of IFMS metadata into EPA Data Register.</p>	<p>12/30/96</p> <p>02/15/97</p> <p>09/30/97</p>	<p>Open</p> <p>Open</p> <p>Open</p>

**STATUS OF PRIOR AUDIT REPORT FINDINGS**

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
<p><b><u>FISCAL 1994 FINANCIAL STATEMENT AUDIT OF EPA's TRUST FUNDS, REVOLVING FUNDS AND COMMERCIAL ACTIVITY</u></b> (Audit Report E1SFL4-20-8001-510192, Issued 2/28/95.)</p>			
<p><b>1.0 ADDITIONAL INFORMATION AND REPORTS WOULD ALLOW AGENCY OFFICIALS TO MORE EFFECTIVELY MANAGE FINANCIAL ACTIVITIES</b></p>			
<p>We recommended that the Chief Financial Officer:</p>			
<p><b>1.1 Provide financial management offices with general ledger reports by accounting point and hold them accountable for the accuracy of their account balances.</b></p>	<p>FMO's scheduled receipt of general ledger reports by accounting point.</p>	<p>08/31/95</p>	<p>Completed 06/26/95</p>
<p><b>1.2 Determine why individual obligations in MARS do not match the IFMS amount and take appropriate corrective action.</b></p>	<p>Determine corrective action. Develop IFMS reports for outstanding obligations. Modify MARS to incorporate the contract order number on contract obligation data.</p>	<p>08/31/95 03/31/96 10/01/96 07/30/97 (rev) 07/30/98 (rev)</p>	<p>Completed 10/31/95 Completed 03/31/96 Open</p>
<p><b>4.0 GRANTEE PAYMENT REQUESTS DO NOT PROVIDE NECESSARY ACCOUNTING INFORMATION</b></p>			
<p><b>4.1 Chief Financial Officer require a clause in all assistance agreements funded from multiple appropriations that specifies how the payments should be charged to the various appropriations. If, for example, all work can be paid for from any appropriation, the clause should state that the finance office may charge any appropriation. However, if certain work should be paid for from a specific appropriation, the clause should require the recipient to include accounting information with each payment request.</b></p>	<p>Prepare a draft policy on split funded projects. Circulate to Grants Customer Relations Counsel for comment. Enter the policy into the Green Border process. Finalize and issue the policy.</p>	<p>08/15/95 08/31/95 09/30/95 01/97 (rev) 11/30/95</p>	<p>Completed 12/96 Completed 12/96 Open Open</p>
<p><b>7.0 PROCESSING CONTROLS FOR THE INTEGRATED FINANCIAL MANAGEMENT SYSTEM AND THE EPA PAYROLL SYSTEM COULD NOT BE ASSESSED</b></p>			
<p><b>7.1 Chief Financial Officer make a commitment to commence development of technical system documentation for its application systems' transaction processes.</b></p>	<p>Meeting between OIG's ADP Audits staff, FMD, ASD, and others to identify specific deficiencies in existing documentation and ensure that all documentation has been provided. Joint OIG-FMD documentation of a specific set of accounting events using the Test environment during subrelease testing.</p>	<p>09/30/95 07/31/95</p>	<p><b>OIG NOTE</b> <b>OIG NOTE</b></p>
<p><b>OIG NOTE: Although FMD reported that corrective action was completed on this recommendation, we have mentioned the lack of adequate system documentation as a Reportable Condition through our current fiscal 1997 audit. Please refer to pages 6 &amp; 7 above for the current status of our recommendations on system documentation.</b></p>			

**STATUS OF PRIOR AUDIT REPORT FINDINGS**

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
<p><b>9.0 PROJECT OFFICERS WERE NOT RECEIVING INFORMATION NEEDED TO MONITOR INTERAGENCY AGREEMENTS</b></p> <p>We recommended that the Chief Financial Officer:</p>			
<p><b>9.1 Ensure clauses are included in IAGs that require other agencies to provide EPA project officers with information on costs incurred and progress on projects.</b></p>	<p>Issue draft of clauses for comment.</p> <p>Issue completed version of clauses to project officers.</p>	<p>07/01/95</p> <p>08/15/95</p>	<p>Completed</p> <p>Completed</p>
<p><b>9.2 Inform IAG project officers that they should:</b></p> <p><b>a. inform the Grants Administration Division when required information is not provided in a timely manner; and</b></p> <p><b>b. complete the approved dollar amount section of the Project Officer Invoice Approval Form.</b></p>	<p>Distribute "Fact Sheet" to all Agency project officers.</p> <p><b>OIG NOTE:</b> This issue was also a Reportable Condition in our fiscal 1996 audit report. Please refer to page 3 for the status of corrective actions on additional recommendations.</p>	<p>08/15/95</p>	<p>Completed</p> <p><b>OIG NOTE</b></p>
<p><b>10.0 A COMPREHENSIVE AGENCY-WIDE POLICY ON INDIRECT COSTS SHOULD BE IMPLEMENTED</b></p>			
<p><b>10.1 Chief Financial Officer develop and implement an Agency-wide policy for identifying and allocating indirect costs.</b></p>	<p>Identify the major tasks and requirements associated with implementing Agency-wide cost accounting based on FASAB managerial cost accounting standard, the provisions of GPRA and other applicable considerations.</p> <p>Commence development of detailed cost accounting policy including financial system requirements analysis.</p> <p><b>OIG NOTE:</b> FMD indicated that the two milestones above were completed on 3/15/97 and 8/28/97 respectively and closed this recommendation in its audit tracking system on 9/4/97. FMD closed this recommendation upon the issuance of a 8/28/97 memorandum to the Office of Site Remediation Enforcement which discussed a preliminary methodology for developing Superfund "full cost" indirect cost rates. FMD also indicated that their goal is to develop and implement the new Superfund indirect methodology by fiscal year 1999. Upon closing this recommendation in its audit tracking data base, FMD officials provided a number of reasons why they believed it is premature at this time to commit to a corrective action plan with specific milestones. These reasons included EPA's appropriation structure; principles of appropriation law, as well as specific provisions in EPA's appropriations, may effectively prescribe accounting methods which do not necessarily reflect generally accepted cost accounting principles; and specific ceilings in EPA's appropriation (i.e. Superfund administrative expenses) also govern how EPA must account for its expenditures. FMD officials also mentioned the Working Capital Fund (implemented in FY 96), would address some of the cost accounting issues for certain administrative functions. In conclusion, FMD officials indicated that "... the development and implementation of an EPA-wide comprehensive cost accounting system will require a long term plan that coordinates system development, policy considerations, and user needs. The integration of these requirements are complex, and a simple corrective action plan at this time is insufficient. Therefore, we will address this issue when we update our Five-Year Plan."</p>	<p>06/30/96</p> <p>03/01/97 (rev)</p> <p>10/31/96</p> <p>03/01/97 (rev)</p> <p>09/30/97</p>	<p>Open</p> <p><b>OIG NOTE</b></p> <p>Open</p> <p><b>OIG NOTE</b></p>

**STATUS OF PRIOR AUDIT REPORT FINDINGS**

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
<p><b><u>FISCAL YEAR 1993 - FINANCIAL AUDIT - SUPERFUND, LUST AND ASBESTOS LOAN PROGRAM</u></b> (Audit Report PISFL3-20-8003-410023, Issued 3/30/94.)</p> <p><b>3.0 CERTAIN EDP SYSTEMS AND CONTROLS NEED TO BE STRENGTHENED</b></p> <p><b>3.1(1) CFO establish controls requiring supervisory review and approval of manual overrides of interest rates and accrued interest.</b></p>	<p>Conduct review and analysis of the issue.</p> <p>Develop recommendations to decision makers to resolve this issue.</p> <p>Select and implement the recommendations</p> <p><b>OIG NOTE:</b> FMD noted completion on these items after a review on 5/22/95 and concluded as follows: "FMD currently has IFMS functioning correctly, and there are no plans to modify the existing baseline accounts receivable process for selecting the interest rate. IFMS has the functionality to apply the appropriate interest rate; internal controls are in place to allow supervisory review and approval of manual overrides in those rare instances when the correct rate is not applied." We note that, in EPA's 1995 Integrity Act Report To The President and Congress (December 19, 1995), EPA reported that the corrective action strategy for FY 1996 includes implementing a PC based accounts receivable module by September 30, 1996 (revised to March 31, 1997 in the FY96 Integrity Act Report). Specifically, EPA will install and interface the Cost Recovery Tracking System (CTS) with IFMS to automate accounting for installments and perform Superfund compounding of interest due EPA. This effort should further improve and enhance the efficiencies of recording installment receivables and preparing complete and accurate management reports on this activity.</p> <p><b>FY 97 update:</b> On November 21, 1997, the Acting Director, FMD, with concurrence by the Comptroller and the Acting CFO, decided to terminate further Headquarters FMD funding of the Region V Cost Recovery Collection Tracking System (CTS). Further, EPA closed this Agency-level receivables weakness under FMFIA because the lack of CTS, in itself, would have never met the criteria for reporting as a material or Agency level weakness. FMD believes the current requirements for Superfund receivable accounting are being materially met through current procedures, and because of their unique requirements, the Financial Management Offices use a combination of manual and automated processes to manage the receivables and maintain current and accurate records of principal and interest, etc., in IFMS.</p> <p>The reasons for this decision included:</p> <p>1) EPA's management of accounts receivable was identified as a material weakness in FY 92 because of technical shortfalls in the accounts receivable module, non-current policies and procedures and inaccurate and incomplete reports. Since FY 92, FMD undertook a number of initiatives to address the numerous problems identified including: several enhancements to the IFMS accounts receivable module, revisions to receivables policies and procedures, and aggressive compliance programs with the Financial Management Offices. The planned development of CTS was the only action remaining unfinished. Because only this action remained, EPA downgraded receivables to an Agency-level weakness in the 1995 FMFIA assurance letter.</p>	<p></p> <p>03/31/95</p> <p>03/31/95</p> <p>06/30/95</p>	<p></p> <p><b>OIG NOTE</b></p> <p><b>OIG NOTE</b></p> <p><b>OIG NOTE</b></p>

**STATUS OF PRIOR AUDIT REPORT FINDINGS**

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
<p><b>4.0 ACCRUED LIABILITIES FOR GRANT EXPENSES WERE NOT RECORDED</b></p> <p><b>4.1 CFO establish specific policies and procedures for recording accrued liabilities for grant expenses for all grant recipients and ensure that the regional offices consistently comply with such procedures.</b></p> <p><b>4.2 CFO instruct the Comptroller to develop and establish policies and procedures in RMDS for accounting for and recording accrued liabilities for grant expenses with specific guidance to address calculating and documenting methodologies for these transactions.</b></p> <p><b>OIG NOTE: Our fiscal 1996 audit report also discussed a Material Weakness for accrued liabilities.</b></p>	<p>2) Although IFMS meets the interest assessment and installment requirements for standard debts, it cannot meet in a fully automated fashion the requirements of the Superfund program, which may have negotiated settlements whose repayment terms vary widely and which has had its own interest provisions separate from the Debt Collection Act. The development of CTS was intended to provide flexibility in calculating the unique interest and repayment terms of Superfund and to capture a wide range of administrative data that would be helpful to managing cost recovery but would not be the type of data that would be found in a core accounting system like IFMS. Over the past year, the CTS project experienced a number of costly problems related to the contract under which the work was being performed and to a change in the Agency standard for software development.</p> <p>3) The regions that piloted CTS expressed concerns about the utility of CTS including reporting limitations, technical problems and the high "overhead" costs of loading and maintaining the extensive databases associated with CTS. Besides not seeing a need for developing a CTS alternative, funding limits in regional offices and increased controls over IT investments are among the factors discouraging regional investments in potentially duplicate efforts. Regional offices will continue to use a combination of IFMS functionality, PC tools (e.g., spreadsheets) and manual calculations to satisfactorily handle the unique Superfund receivable requirements.</p> <p>Expand present year-end instructions to include specific guidance on accruals and grant expenses.</p> <p>Include payables and accruals on the weekly closeout meetings as an agenda item so as to emphasize to all finance offices the need to follow the written instructions.</p> <p>Issue Policy Announcement. Issued policy announcement 95-11 on 9/22/95.</p> <p>Issue RMDS Directive. FMD officials closed this audit recommendation in its audit tracking data base on 9/16/97.</p> <p><b>OIG NOTE:</b> FMD officials indicated that this milestone, along with this recommendation 4.2, is not applicable since they have been superseded by audit recommendation 3.1 in the FY 96 financial statement audit report. Refer to page 1 for the current status of actions taken on this issue.</p>	<p></p> <p>08/01/94</p> <p>09/30/94</p> <p>08/31/94 01/31/95 (rev) 07/31/95 (rev)</p> <p>12/31/95 04/30/96 (rev) 09/30/96 (rev) TBD 09/30/97</p>	<p></p> <p>Completed 08/31/94</p> <p>Completed 09/28/94</p> <p>Completed 09/22/95</p> <p><b>OIG NOTE</b></p>

**STATUS OF PRIOR AUDIT REPORT FINDINGS**

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
<p><b><u>FISCAL YEAR 1993 - FINANCIAL AUDIT - PESTICIDES REVOLVING FUNDS AND THE OIL SPILL TRUST FUND</u></b> (Audit Report E1AML3-20-7001-4100230, Issued 3/31/94.)</p> <p><b>3.0 PROPERTY BALANCES INCLUDED IN THE FINANCIAL STATEMENTS COULD NOT BE AUDITED</b></p> <p><b>3.1 CFO establish and track revised target dates for implementing the new fixed asset sub-system once development of the sub-system has been completed.</b></p> <p><b>7.0 HIGHER PRIORITY NEEDS TO BE PLACED ON COMPLETING REQUIRED REVIEWS OF USER FEES</b></p> <p><b>7.1 CFO include timely review of user fees as one of the financial management performance measures used to evaluate program offices in the future.</b></p>	<p>Monitor USGS implementation progress.</p> <p>Finalize and submit cost benefit analysis to EPA management.</p> <p>Develop implementation plan for sub-system.</p> <p><b>OIG NOTE:</b> FMD implemented the Fixed Assets Subsystem (originally planned for 9/30/95) on 7/14/97.</p> <p>Implement financial management performance measures in the program offices.</p> <p><b>OIG NOTE:</b> In its FY 97 Integrity Act report, EPA reported a corrected Agency-level weakness for user fees. During FY 97, various program offices completed reviews of their current fee systems and provided a response to the OCFO. The Deputy AA for each program office is responsible for ensuring that cost documentation which supports the fees is maintained. On 11/5/97, the Acting CFO provided the Administrator with a biennial fee review report. The report shows five current fees, four proposed fees, and eight exceptions. The eight exceptions are explained in six appendices attached to the report. The Agency plans to meet with OMB to discuss the exception requests.</p> <p><b>OIG comment:</b> We acknowledge Agency plans to discuss the exception requests with OMB, however, we wish to emphasize that the Agency still needs to follow through and either institute, revise, or update all user fees or obtain exceptions from OMB as OMB Circular A-25 requires.</p>	<p>Ongoing</p> <p>04/15/94</p> <p>06/30/94</p> <p>12/01/94 04/01/95 (rev) 07/31/97 (rev)</p>	<p>Ongoing</p> <p>Completed</p> <p>Completed 07/26/94</p> <p><b>OIG NOTE</b></p> <p>Open <b>OIG NOTE</b></p>



**STATUS OF PRIOR AUDIT REPORT FINDINGS**

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
<b>FISCAL YEAR 1992 - FINANCIAL AUDIT - PESTICIDES REVOLVING FUNDS</b> (Audit Report E1EPL2-20-7001-3100065, Issued 6/30/93.)			
<b>3.0 PROPERTY PURCHASED WITH FIFRA FUND WAS NOT PROPERLY CAPITALIZED</b>			
<b>3.1 CFO direct the Personal Property QAT to revise the Agency's capitalization policy to include more detailed instructions for determining which Agency assets should be capitalized. Specifically, the policy should contain guidance on:</b>  - defining all object class codes which contain items which could be capitalized; - identifying component parts including a listing of standard items which qualify as components; - capitalizing split-funded purchases and purchases of group assets; and - identifying and accounting for leasehold improvements.	Complete cost benefit analysis for implementing Integrated Fixed Asset Sub-system.  Obtain management concurrence on QAT recommendations.  Develop implementation plan.  Implement Fixed Assets Subsystem.  <b>OIG NOTE:</b> FMD closed this recommendation in its database with the following comments: "Milestone was not deemed to be applicable because it was included in addition to the actual revision of EPA's capitalization policy which was previously completed. The implementation of the Fixed Assets Subsystem is tracked in the FY 1996 FMFIA Report." For the current status on this corrective action, please refer to pages 2 and 3, related to finding 5.0 "Further Improvements in Accounting for Capitalized Property Needed".	05/31/94  05/31/94  06/30/94  09/30/95 07/31/96 (rev) 12/06/96 (rev) 02/28/97 (rev) 03/31/97 (rev)	Completed 04/30/94 Completed 05/02/94  Completed 06/30/94  Closed 03/03/97 <b>OIG NOTE</b>
<b>3.2 Direct the Director, FMD to provide training to program office personnel on the proper assignment of object class codes on obligating documents.</b>	Identify training requirements for OPP.	10/31/93	Completed 04/30/94
<b>6.0 TOLERANCE FEES COLLECTED DID NOT COVER EPA'S COSTS</b>	Conduct training.	12/31/93	Completed 04/30/94
<b>6.1 CFO, in coordination with the Director, OPP, conduct a comprehensive review of tolerance program costs to determine how much tolerance fees should be raised, and take the necessary steps to make appropriate changes in the fees charged.</b>	Develop methodology for conducting review of tolerance program costs.  Complete review and submit to CFO with recommendations.	10/31/93  01/31/94	Completed 12/15/93 Completed 11/5/97 <b>OIG NOTE</b>
<b>6.2 CFO conduct the required biennial review of other Agency user fees, and institute the necessary policies and procedures to ensure that these reviews will be conducted in a timely manner in the future.</b>	<b>OIG NOTE:</b> In its FY 97 Integrity Act report, EPA reported a corrected Agency-level weakness for user fees. For a current status, please refer to page 12, recommendation 7.1.		

**STATUS OF PRIOR AUDIT REPORT FINDINGS**

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
<p><b><u>FISCAL YEAR 1991 - FINANCIAL AUDIT - HAZARDOUS SUBSTANCE SUPERFUND</u></b> (Audit Report PISFF1-11-0026-2100660, Issued 9/30/92.)</p> <p><b>3.0 CERTAIN ALLOCABLE COSTS WERE NOT ALLOCATED TO SUPERFUND</b></p> <p><b>3.1 Obtain a written opinion from the OGC on the legal basis for charging Superfund administrative expenses to the Salaries and Expenses Appropriation. If the OGC determines that the Agency's current practice of charging the S&amp;E appropriation for Superfund administrative expenses after the Superfund administrative ceiling is reached is improper, then the OGC should provide guidance on appropriate corrective action.</b></p>	<p>Request a legal opinion from OGC to reaffirm the legality of charging Superfund expenses to the S&amp;E appropriation.</p> <p><b>OIG NOTE:</b> OGC issued a memo to the Comptroller on 7/11/96 reaffirming prior OGC opinions concerning the charging of Superfund administrative expenses to other appropriation accounts. Specifically, a 1984 Associate General Counsel opinion on the subject stated that under applicable GAO precedent, once the Agency elects the type of costs to charge to Superfund and the types of costs to charge to S&amp;E, it is bound by its election. Based on this OGC decision, on 8/9/96, we asked the Comptroller to provide a work sheet or schedule that clearly identifies each fiscal years' understatement (from FY91-95). On 9/17/96, the Comptroller sent us a memo advising us that they are not planning to move S&amp;E charges to the Superfund account for FY91 or subsequent years. The OC and OGC are examining the application of the statute for allocating costs between appropriations. The OC believes that the history behind the administrative expense ceiling in Superfund may permit EPA to appropriately discontinue allocating costs once the ceiling limitation has been reached. As of the date of this report, the Comptroller and the OGC have not reached resolution on this issue.</p> <p><b>OIG comments:</b> We encourage the Comptroller to make every attempt to resolve this long standing issue which was first reported by us in FY 92. If the Comptroller is aware of reasons that would prevent taking action suggested by OGC, we suggest that a decision memorandum be prepared to resolve this issue by the Acting CFO and the OGC.</p>	<p>02/15/93 06/30/95 (rev)</p>	<p>Open <b>OIG NOTE</b></p>

**EPA'S FISCAL 1997 AND 1996 FINANCIAL STATEMENTS**

---

March 2, 1998

MEMORANDUM

SUBJECT: EPA's Fiscal 1997 and 1996 Financial Statements  
Audit Report No. E1AML7-20-7008-8100058

FROM: James O. Rauch /s/  
Principal Deputy Assistant Inspector  
General for Audit (2421)

TO: Sallyanne Harper  
Acting Chief Financial Officer (2710)

Alvin M. Pesachowitz  
Acting Assistant Administrator for  
Administration and Resources Management (3101)

Steven A. Herman  
Assistant Administrator for  
Enforcement and Compliance Assurance (2201A)

Attached is our audit report on the Agency's fiscal 1997 and 1996 financial statements. The report recognizes the progress that has been made in improving the Agency's financial reporting systems and practices to the point that we could render an unqualified opinion on EPA's Agency-wide financial statements. Working together we have been able to resolve all of the issues that caused us to qualify or disclaim an opinion on prior years' financial statements, with the exception of unbilled Superfund oversight costs. Agency management needs to place a high priority on resolving this issue since it impacts not only the Superfund financial statements, but also the Agency's Superfund cost recovery efforts. Now that the Agency has obtained its goal of receiving a clean opinion on its Agency-wide financial statements, we need to jointly focus on implementing a cost accounting system that provides EPA managers with timely, reliable information for carrying out their environmental programs.

In this particular audit, the OIG did not measure the audited offices' performance against the standards established by the National Contingency Plan (NCP). The findings contained in this audit report are not binding in any enforcement proceeding brought by EPA or the

Department of Justice under section 107 of the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) to recover costs incurred not inconsistent with the NCP.

In accordance with EPA Order 2750, the primary action official is required to provide us with a written response to the audit report within 90 days of the final audit report date. Since this reports deals primarily with financial management issues, the Acting Chief Financial Officer is designated the primary action official. The primary action official should take the lead in coordinating the Agency's official response so that the 90 day timeframe is met. For corrective actions planned but not completed by the response date, reference to specific milestone dates will assist us in deciding whether or not to close this report in our audit tracking system.

This audit report contains findings that describe problems the Office of Inspector General has identified and corrective actions the OIG recommends. This audit report represents the opinion of the OIG, and the findings contained in this audit report do not necessarily represent the final EPA position. Final determinations on matters in this audit report will be made by EPA managers in accordance with established EPA audit resolution procedures. Accordingly, the findings described in this audit report are not binding upon EPA in any enforcement proceeding brought by EPA or the Department of Justice.

Should you or your staff have any questions about the report, please contact Melissa Heist, Divisional Inspector General for Audit, Financial Audit Division, at 260-1479, or Alan Bogus of her staff at 260-4943.

Attachment

cc: See Report Distribution List

**AGENCY'S RESPONSE TO THE DRAFT REPORT**

---

**MEMORANDUM**

**SUBJECT:** Response to Draft Audit Report No. E1AML7-20-7008,  
"Audit of EPA's Fiscal 1997 and 1996 Financial Statements"

**FROM:** Sallyanne Harper  
Acting Chief Financial Officer (2710)

**TO:** James O. Rauch  
Principal Deputy Assistant Inspector  
General for Audit (2421)

We appreciate the opportunity to review and comment on the draft Financial Statements audit report. Attached are both general and specific comments for your Office's consideration in preparing the final audit report (Attachment A) and the consolidated Agency responses to your draft recommendations (Attachment B).

We are, of course, particularly pleased that our work together over the past year has culminated in an unqualified audit opinion on the agency-wide financial statements. This achievement is one about which both of our Offices should be very proud.

We would like to thank you and your staff in particular for working with us to develop acceptable procedures for developing the grant accruals for our fiscal year 1997 financial statements. Your Office's assistance was very valuable, and we look forward to working with your Office in developing acceptable procedures for determining the grant accruals for the fiscal year 1998 financial statements.

Regarding the draft audit report recommendations, our respective Offices agree with the need for continued improvements in many of those areas. We have provided, in Attachment B, information to you on the actions that are underway or that are planned to implement those improvements. However, there are several recommendations that the draft audit report classified under reportable conditions that we believe should not be included in that category. The basis for our opinion on their classification is described in the Attachments. The concerns about the timelines of the Superfund oversight billings and accruals remain, and our Offices need to

continue to work together on resolving those concerns. With respect to FFMIA compliance, we continue to believe that we are substantially in compliance with the requirements of that law. In those areas where your staff have reported deviations from procedural requirements, we have documented for you the steps we have taken to remedy those findings.

We look forward to continuing to work with your staff to resolve the remaining issues and to meet new challenges in the future.

If you have any questions regarding our response, please contact Jack Shipley, Director, Financial Management Division at 564-4905.

#### Attachments

cc: Acting Assistant Administrator for Administration and Resources Management (3101)  
Acting Assistant Administrator for Solid Waste and Emergency Response (5101)  
Assistant Administrator for Enforcement and Compliance Assurance (2201A)  
General Counsel (2310)  
Comptroller (2731)  
Director, Office of Administration (3201)  
Director, Office of Acquisition Management (3801R)  
Director, Office of Grants and Debarment (3901R)  
Director, Office of Administration and Resources Management, Cincinnati, OH  
Director, Office of Administration and Resources Management, RTP, NC  
Acting Director, Office of Information Resources Management (3401)  
Director, Office of Site Remediation Enforcement (2271A)  
Director, Office of Emergency and Remedial Response (5201G)  
Acting Director, Annual Planning and Budget Division (2732)  
Director, Grants Administration Division (3903R)  
Director, Enterprise Systems Division (3409)  
Director, Facilities Management and Services Division (3204)  
Director, Financial Management Division (2733R)  
Director, Financial Services Division (2734R)  
Acting Director, Enterprise Technology Services Division, OIRM, RTP, NC  
Financial Management Officers, Regions 1-10, Cincinnati, Las Vegas, and Research Triangle Park  
Divisional Inspectors General for Audit  
Chief, Financial Reports and Analysis Branch (2733R)  
Chief, Program and Cost Accounting Branch (2733R)  
Chief, Financial Systems Branch (2733R)  
Chief, Financial Policies, Procedures, and Compliance Branch (2733R)  
Chief, Washington Financial Management Center (2734R)  
Chief, Security and Property Management Branch (3204)  
Kathy Sedlak O'Brien, Agency Audit Followup Coordinator (2724)  
Vanessa Bowie, Audit Liaison for the Office of the Chief Financial Officer (2710)

Lora Culver, Audit Liaison for the Office of Administration and Resources Management (3102)  
Andrew Kreider, Audit Liaison for the Office of Solid Waste and Emergency Response (5103)  
Tom Pastore, Audit Liaison for the Office of Administration (3201)  
Linda Garrison, Audit Liaison for the Office of Information Resources Management (3402)

Greg Marion, Audit Liaison for the Office of Enforcement and Compliance Assurance (2201A)

John Showman, Audit Liaison for the Grants Administration Division (3903R)

Pat Gilchrist, Audit Liaison for the Administrator's Office (1104)

bc: Joseph Dillon (2734R)  
William Cooke (2733R)  
Becky Fredericks (3302)  
Bruce Feldman (3903R)  
Susan Kantrowitz (3801R)  
Terry Ouerson (2732)  
Iantha Gilmore (7502C)  
Douglas Weik (7501C)  
Edward Setren (7501C)  
Tom Hooven (7101)  
Maureen Ross (3903R)  
Dan Dellapenta (3204)  
Nate Lewis (3204)  
Tom Jones (2731)  
Michael Whitacre (2731)

rluck\cg\2733R\81189\564-4917\2/17/98  
g:ocfo\cmd\share\fcqa\cnsolrsp.wpd  
checked by speller

**FISCAL 1997 FINANCIAL STATEMENT AUDIT**  
**GENERAL AND SPECIFIC COMMENTS**

Page iv, Paragraph 1

**“We were unable to determine . . . . because we could not audit the unbilled Superfund oversight costs . . . .”**

We believe this statement significantly overstates the seriousness of the issue. [Our specific comments on this issue are below (comments about pages 1-1 and 1-2).] Because this statement is made in the Executive Summary, which may be the most widely read section of the audit report and which will set the impressions that readers will carry with them as they read further in the report, it is critical that this section provide a balanced description of the issue. We believe that the sentence should instead state that the oversight costs were audited and that the OIG and OC worked closely with the regions to improve the accuracy of the accruals.

Page v, Paragraph 3 (and similar sentences on page v, Paragraph 3, and page 11, Paragraph 1)

**“There are a number of ongoing investigations involving EPA’s grantees and contractors which could reveal violations of laws and regulations, but a determination about these cases has not been made.”**

Absent a reasonable amount of evidence that these investigations and their results will have a material affect on the fair presentation of EPA’s FY 1997 financial status, this sentence could mislead a reader and therefore should be deleted.

Page vi, first five bullets

As discussed in detail below, we do not agree with the assertion that we are not in substantial compliance with FFMIA.

Page vi, first full paragraph (and similar wording at page 12)

**“. . . . EPA is not complying with appropriation law when disbursing grants funded from more than one appropriation. . . . . Thus, EPA is not complying with Title 31 USC 1301 which requires EPA to match disbursements to the benefitting appropriation.”**

The audit report implies that EPA’s Office of General Counsel has issued a formal opinion on the multiple appropriation funded grants issue. In fact, the issue is still under discussion within OGC, and OGC attorneys have contacted OMB’s Office of General Counsel to discuss the matter further. They are awaiting a response from that Office. We do, in fact, match grant obligations throughout the life of the grant--and final disbursements of the grants--to the benefitting appropriations, which practice FMD believes is compliant with the applicable law and regulations. Since there has been no official determination that we are, or are not, in compliance with the relevant laws, any discussion of this matter should be deleted from the audit report.

Page 2, Prior Audit Coverage

**“During previous financial audits, weaknesses that impacted our audit objectives were reported in the areas of [list of 15 items follows]. We encourage management attention to make every attempt to resolve these issues, many of which have been outstanding for a number of years.”**

We believe this list and the recommendation are very misleading. Of the items listed, the great majority are either closed or nearly closed. FMD and other offices, working cooperatively with your staff, have made major strides in addressing these issues. Those successes should be reported here.

Page 4, Paragraph 1

**“In addition, the Agency is still working to develop an estimate of its pension and other retirement expenses for FY97.”**

That estimate has been completed and this reference, and others in the audit report, to the pension and retirement expenses, should be modified accordingly.

Page 7, Paragraph 1

**“We will also be reporting other less significant matters involving the internal control structure and its operations in a separate management letter.”**

Rather than leaving it to the reader’s imagination about what those matters are, the items to be included in the management letter should be briefly mentioned.

Page 7, First bullet

**“Although the Agency has taken steps to improve controls in the accounts receivable area, we continued to find accounts receivable that were not timely recorded and billed, allowances for doubtful accounts not properly computed and uncollectible receivables that were not timely written off. Consequently, accounts receivable may not be correctly valued and timely collected.”**

We take strong exception to these statements, which appear to speculate that the receivables may not be correctly valued and timely recorded. These statements may leave the reader with the impression that our record on receivables is much less successful than it actually is. As noted in greater detail below, the great majority of receivables are recorded and billed timely, allowances for doubtful accounts estimated within acceptable bounds of accuracy, and uncollectibles identified and written off. Although we are committed to continuing to improve our management of accounts receivable, the positive record that we do have should be reflected here to provide the reader a more complete understanding of the situation. The OIG should quantify their findings and not leave the reader to speculate on the findings’ magnitude.

Page 7, Second bullet

**“However, the results of this year’s audit show the Agency needs to continue its efforts to improve the accounting for property. . . . When property is not accurately accounted for, it impacts the quality of the data available to manage EPA’s resources and increases the risk of theft, loss or misuse of property.”**

Again, we are concerned about the misimpressions that these sentences may give readers. We certainly intend to continue training property management and financial staff to ensure that the IFMS property records are as accurate as possible. Overall, however, we have come much further in improving property accounting and accountability in FY 1997 than the above quoted sentences would imply and that progress should be reported here.

Page 7, Fourth bullet

**“ . . . . the procedures need to consider the impact of reporting on a program level, rather than an appropriation level basis.”**

Because this need is well known, we recommend that this sentence be rephrased to say that “. . . . the Agency is aware of these changed requirements and is developing a methodology that recognizes the need to report on a program level rather than on an appropriation basis.”

Page 8, First bullet

This bullet discusses “invoice approval forms for interagency agreements.” Since this finding, from an earlier audit, has been closed, we believe this bullet should be deleted.

Page 8, Fourth bullet

As discussed in detail below, we do not believe that the benefits of this additional documentation can justify the costs to develop and maintain this documentation.

Pages 8 through 10 on other audits

These pages list a number of other audit findings that the audit report suggests have significant relevance to the financial statements. The audits range from LAN security to investigations of regional contractors, to Grant Closeouts and to Internet security. We do not believe these audits are related closely enough to the financial audits to merit inclusion here. For example, IFMS is not based on a LAN system but is rather a mainframe system and protected by mainframe related security measures. Another example would be grants closeouts--while an important issue in the effective administration of grants, there is no evidence provided that the closeout will have a substantial affect on the presentation of EPA's financial statements.

Page 11, Paragraph 3

**We found EPA was not in substantial compliance with the FFMIA requirements because, as previously noted, the Agency did not have controls in place that allowed it to fairly present recoverable Superfund oversight costs in its financial statements.**

We strongly disagree with the IG's statement that the Agency did not have controls in place that allowed it to fairly present recoverable Superfund oversight costs in its financial statements. In fact, the Material Weakness draft language related to Unbilled Oversight yields no mention that controls were absent to meet fair presentation. We explored the possibility of incorporating

unbilled oversight cost accruals into the Project Cost Accounting System (PCAS); however, preliminary system testing indicates this not to be a fully effective methodology, in lieu of the present cost finding technique. Instead, the Agency adopted a methodology, approved by the OIG, for Fiscal 1997. It is our position that this methodology can be used indefinitely without the need to be automatically system generated. Furthermore, as delineated in the Material Weakness section, the draft fails to recognize that the reason for the delay in fair presentation of these estimates is not related to the methodology.

The statement on recoverable costs is misleading, in addition to the above reasons, because it assumes that the entire estimate for unbilled costs are recoverable and hence collectable. The statement should be revised to say that the costs are “potentially” recoverable.

#### Pages 1-1 and 1-2 on Oversight Costs, General Comments

This draft is based on information that supports the accrual estimates entered more than two months ago. Although the position paper recognizes that Regions 4 and 5 are performing additional work to address the issues raised by OIG, it excludes pertinent information regarding the approach taken by the Agency since that time. For instance, there is no mention that two FMD/Regional Teams were assembled to review, by Specific Identification, the majority of the unbilled oversight dollars submitted by Region 4 and Region 5. Specific Identification was performed in both Regions due to a general lack of billing history. It was also performed to provide an alternative to relying on a statistical sample projection. To avoid leaving readers with a misimpression, the audit report should note that the reason for the delay in arriving at these accruals was not related to the OIG-approved methodology.

#### Page 1-1, Paragraph 2

**“We found the accruals in Regions 4 and 5 were based predominantly on the historical billing percentages for only a small percentage of their universe of unbilled oversight costs. The site costs incorporated in the analyses by the two regions were not large enough to be relied upon as representative of their populations as a whole”.**

These statements are not accurate. In Region 4, all historical data for open oversight sites were used in developing the accrual. In Region 5, the Regional IG office and Finance agreed to the process that the regional finance office used.

Furthermore, the mutually agreed upon methodology provides for using history as a means of estimating the accrual amount. However, due to a lack of billing history, the Agency took supplemental steps to specifically identify and review the majority (approximately 75% in Region 4 and 92% in Region 5) of unbilled oversight costs. Again, there is no mention of these events and the statement is misleading.

#### Page 1-1, Paragraph 2

**“Further, the sampling results at Region 5 identified significant errors that when projected to the Region’s population as a whole yielded a most likely error of nearly \$24 million (a potential overstatement of \$10.7 and a potential understatement of \$13.2 million) in the amount of reported unbilled oversight costs.”**

We believe that whether these are “errors” is a matter of interpretation. In conjunction with the supplemental review, “Specific Identification” was performed in Region 4 and was accepted as a remedy by the IG. In Region 5, the IG chose statistical sampling as the remedy. However, the supplemental review in Region 5 reviewed, through Specific Identification, approximately 92% of the unbilled population of oversight costs. We would like to have a better understanding of the basis for the difference in the OIG’s audit approach in the two regions. In any case, we feel that reviewing 92% yields a fair presentation of unbilled oversight costs in Region 5 than would the statistical approach.

Page 1-1, Paragraph 2

**“The region overstated its fiscal 1996 oversight cost accrual by recording the beginning balance twice. When the accrual was reversed in fiscal 1997 it caused miscellaneous receipts to be understated by nearly \$4.6 million. As a result, we could not determine if the amount reported in the Agency’s financial statements for unbilled Superfund oversight costs is fairly presented.”**

The draft fails to state that an “on top” adjustment to the financial statements has been reflected for the amount of the understatement as a result of this double entry error. As a result, a fair presentation exists in the financial statements regarding this error.

Page 1-1, Paragraph 3 & 4

**“At Region 4, we found regional staff utilized all 29 oversight sites with previous billing activity to estimate ..... . We do not believe a reliable estimate of total unbilled oversight costs can be calculated based on such a limited percentage of costs. We found a similar condition in Region 5 ..... .”**

As stated in our earlier comments, the mutually agreed upon methodology provides for using history as a means of estimating the accrual amount. The methodology provides no minimum acceptable percentage. Regardless of billing history, however, the Agency took supplemental steps in early January to review the majority of unbilled oversight costs in Region 4 & 5. Once again, there is no mention of these additional steps, which makes these statements misleading. Certainly, a reliable estimate is possible when a Team of experienced regional accountants reviews the majority of unbilled costs. In fact, we argue that specifically identifying the majority yields a better accrual estimate than extrapolating the results of 25 sampled items to the universe.

Page 1-2, Paragraph 2

**“Accounting standards recognize that there are ..... . However, the methodology and support for the estimate should reasonable and be based on historical trends.”**

See comments above under Page 1-1, Paragraph 3 & 4.

Page 1-2, Paragraph 3

**“The billing of oversight cost needs to be a regional priority. The Agency estimates.... .**

We recognize and agree that the Agency should improve its oversight billing process. However, this paragraph doesn't really deal with the fair presentation of unbilled oversight. We believe the accrual computation and financial statement presentation is the issue.

#### Pages 2-1 through 2-3, General Comments on Accounts Receivable

Although further improvements can be made, we believe that EPA is currently managing its receivables effectively overall and that the audit report should reflect this status. With respect to the current status of accounts receivable management in the Agency, our Core Financial Management Measures for FY 1997 indicate that we have made substantial improvements in this area. For example, 92.9% of receivables resulting from penalties, fines, or Superfund cost recoveries were recorded within 3 workdays of receipt or of the effective date of the receivable, and thus the Agency exceeded its 90% target goal for the year.

#### Page 2-1, Paragraph 2

**“In Regions 2, 3, 4, and 5, we identified 36 Superfund accounts receivable, valued at \$163.4 million, that were not recorded in IFMS within the proper time frame.”**

Of the \$163.4 million in Superfund accounts receivable that the report identified as being recorded late in IFMS, two receivables valued at a total of \$101 million were recorded only two days beyond the 3 day target for recordation. Further, two other receivables valued at \$16 million were recorded only six days beyond the target timeframe. The statements contained in the draft should be revised to present a more accurate and more balanced picture of our accounts receivable management. Statements such as those provided in the audit report cast the Agency's financial management in a negative light without cause. The Agency does in fact manage its accounts receivable very well.

#### Page 2-1, Paragraph 3

**“For example, it took almost three years for Region 2's Emergency Remedial and Response Division (ERRD) to issue a bill for oversight costs valued at \$1.5 million that related to one site.”**

Region 2 has indicated that the statement made in the third paragraph of the draft concerning a delay in billing for oversight costs totaling \$1.5 million is incorrect. In this case, the billing documentation provided to the ERRD by the Region 2 FMO was for a cost recovery package, not oversight billing support. Further, this documentation was provided to the ERRD in a timely manner. Accordingly, the finding made in the draft concerning the FMO's delay in issuing a \$1.5 million bill for “oversight costs” should be deleted.

#### Page 2-2, Paragraph 3

**“These errors occurred because finance personnel were inexperienced in the procedure of calculating allowances.”**

Region 4 believes that the reason for the errors was not inexperienced staff but rather that they did not have an accurate understanding of the requirements, and the wording in the draft

audit report should be modified accordingly. As noted in the audit report, “The FMO subsequently recalculated the allowance using the correct allowance methods and reasonable allowance percentages.”

Page 2-5, Paragraph 3

**“At Research Triangle Park (RTP), we identified personal property that was not capitalized but should have been, was not recorded in FAS, or was capitalized but recorded at undervalued amounts in FAS. Many of these items were components or betterments to existing personal property. Specifically, we identified 15 Working Capital Fund (WCF) personal property items, valued at \$4,205,020 and meeting the capitalization criteria, which either were not capitalized, were not recorded in FAS, or were capitalized but at undervalued amounts.”**

The \$4,205,020 out-of-balance condition noted in the position paper is overstated by \$1,912,262. Assuming the auditor(s) worksheets and analysis were correct, the net book value, after depreciation, is \$2,292,758. This is the amount that should appear in both the FAS and General Journal. We are coordinating our efforts to resolve these issues with the RTP audit staff and Property Management Officer to determine the accuracy of this total to ensure that any related adjustments do not include contractor equipment or amounts already reported in the beginning balance.

Page 2-6, Paragraph 2

**“In general, we found during our analysis that discrepancies between the two journals were resolved and adjusting entries were made as of year-end. Most errors noted were due primarily to transactions included in the General Ledger account for Equipment (Account 1750) which did not meet the Agency’s capitalization criteria. However, we found that the General Journal and Fixed Assets Journal did not reconcile at RTP and Cincinnati. Even though the appropriate adjustments were made to the General Journal at RTP and Cincinnati, the adjustments to FAS were not made. The Fixed Assets Journal for RTP was undervalued by approximately \$1.7 million resulting in unrecorded capital property in FAS. We also identified upgrades to existing WCF personal property, totaling \$655,770, which were capitalized or identified for capitalization during the year-end reconciliation process; however, they were not included in FAS. RTP property personnel did not capitalize these property items because they did not consider or treat ‘internal parts’ as such.”**

As you are aware, the Fixed Asset System (FAS) was implemented in the latter part of FY97. Considering the conversion of PPAS data, new purchases of equipment, and implementation of new policies and procedures for recording purchases, out-of-balance conditions between FAS and the General Journal would have been expected. We believe identifying such discrepancies and taking corrective action is a normal part of the reconciliation process after a new system has been implemented. In fact, the RTP finance office has reconciled the \$1.7 million of property not recorded in the FAS to individual purchase documents. Copies of the purchase documents will be forwarded to property management officers to initiate recording them in the FAS. RTP and FMD will also work with respective property management officers to ensure that these items are recorded in the FAS timely.

Page 2-11, Paragraph 1

**“The site has an estimated cleanup cost balance of \$798,246 that should be recorded on the fiscal 1997 financial statements.”**

Although the report states that the amounts disclosed in the financial statements for environmental liabilities are fairly presented, we believe that the subsequent text gives the reader the impression that the amounts stated in the report are not shown in the financial statements. For example, in several places (in addition to the sentence quoted above) the report states, "...\$XXX should be recorded as an environmental liability." All of the amounts listed in the draft report are included in the statements and the audit report should be revised accordingly.

Page 2-11, Paragraph 2

**"In addition, SFFAS No. 6, 'Accounting for Property, Plant and Equipment,' states that cleanup costs resulting from federal operations at Federal facilities are to be recognized as a liability on Federal financial statements."**

The report lists SFFAS #6--Accounting for Property, Plant and Equipment--as an applicable standard for environmental liabilities. While this standard does address environmental liabilities, it was not in effect in FY 1997. We suggest that this reference be deleted

Page 2-13, Paragraph 2

**"Although the controls for identifying and recording the mixed funding agreements are diversified, we believe this disclosure has been satisfactorily made in the financial statements."**

While OCFO agreed to report on pre-authorized mixed funding agreements for FY 1997, we, along with OERR, do not believe that these agreements meet the criteria under SFFAS #5 for reporting a liability.

**FISCAL 1997 FINANCIAL STATEMENT AUDIT**  
**FINDINGS AND RECOMMENDATIONS**

**MATERIAL WEAKNESSES**

**IMPROVEMENTS NEEDED IN AGENCY'S ACCOUNTING FOR UNBILLED SUPERFUND OVERSIGHT COSTS**

- 1.1 The Acting Chief Financial Officer develop a plan with goals and milestones that will ensure all oversight billings are current by the end of fiscal year 1998.**

**RESPONSE:** This response is to the recommendation contained in the February 18, 1998, revised position paper, which was issued subsequent to the draft audit report and therefore supersedes the recommendation contained in that report.<sup>7</sup>

We agree that the Agency needs to improve the timeliness of oversight cost billings. To that end OCFO and OECA will work together to develop an action plan setting forth the steps and milestones to achieve our goal of timely billings.

The Director, OSRE, is already taking steps to make the timeliness of oversight billing a high-priority. Regional visits by OSRE representatives are now underway, and Regional Waste Division Directors will be meeting in March to discuss and develop procedures for improving billing timeliness. In early FY 1999, OSRE plans to conduct an assessment of regional performance for FY 1998 and determine if additional action is necessary.

In addition to working to improve the timeliness of oversight billings, OCFO and OECA will strengthen our current methodology for estimating the amount of unbilled oversight costs at year end. Both oversight billing and the technical issues of unbilled oversight estimating will be addressed at the Superfund Conference/Technical Workshop to be held in June 1998.

**Corrective Action:**

**Target Date**

OCFO and OECA establish a plan with goals and milestones for oversight billings.

04/30/98

---

<sup>7</sup>Since the draft audit report itself was not revised to reflect the February 18, 1998, version of the position paper, our comments in Attachment A respond only to the information included in the draft audit report.

## **REPORTABLE CONDITIONS**

### **FURTHER IMPROVEMENTS NEEDED IN MANAGING EPA'S ACCOUNTS RECEIVABLE**

**2.0 We recommend that the Acting CFO:**

**2.1 Provide detailed training to regional finance personnel on how to calculate the allowances for doubtful accounts;**

**RESPONSE:** We agree. The proper calculation of doubtful accounts is a procedure that requires regular refresher training for staff. We will provide detailed training in this area during our next technical workshop planned for late Spring 1998. In addition to providing similar training in the future, we will continue to oversee the function at the Headquarters level.

**Corrective Action:**

**Target Date**

Training at technical workshop

6/98

**2.2 Conduct site visits to regional finance offices and perform quality assurance reviews to ensure FMOs are properly following accounting guidance;**

**RESPONSE:** We agree. Periodic site visits are a part of our Quality Assurance Program. Accordingly, we plan to conduct two site visits during the remainder of FY 1998. Also, we plan to increase the effectiveness of our quality assurance reviews by augmenting the Headquarters staff with experienced staff from the Financial Management Offices and Centers.

**Corrective Action:**

**Target Date**

Site visits (location TBD)

9/30/98

**2.3 Develop procedures that require FMOs to follow-up with ORC and program offices when responses to their requests for receivable collectibility are not made timely;**

**RESPONSE:** Although we believe that sufficient guidance has been provided in this area and that the need for communication between the FMOs, ORCs, and the program offices is constantly emphasized, we will continue to work closely with these offices to improve the management and reporting of delinquent receivables, and timely collectibility determinations. Measuring collectibility, however, can be difficult for receivables that are in litigation or in appeal. The majority of our delinquent receivables fall into one of these two categories.

At this time, we will initiate discussions with the FMOs, legal counsel, and the program offices to determine what additional steps might be helpful. Also, during our Spring technical

workshop, we will conduct a training session that will review the various types of receivables

within the Agency, and exchange ideas on how to effectively manage these receivables and measure collectibility in the future.

<u>Corrective Action:</u>	<u>Target Date</u>
Technical Workshops	6/98

**2.4 Work with the Assistant Administrator for Enforcement and Compliance Assurance to implement guidance that will ensure FMOs receive supporting documents for establishing and writing off accounts receivable from ORCs and program offices.**

**RESPONSE:** As noted below (see response to 2.5), we will continue to work with OECA to ensure that all supporting documentation required to either establish or write-off accounts receivable is provided by the ORCs to the FMOs in a more timely manner. For example, during our monthly meetings with the Office of Site Remediation Enforcement we will continue to discuss and emphasize the need for the ORCs to be more timely in transmitting documentation to the FMOs. Also, we are about to issue a Policy Announcement on Treasury Cross-Servicing of Delinquent Debts and are currently making revisions to RMDS 2540, Chapter 9 to bring the Agency’s accounts receivable and write-off guidance up-to-date. This guidance will be disseminated Agency-wide when completed.

<u>Corrective Action:</u>	<u>Target Date</u>
Issue Cross Servicing Policy Announcement	3/98
Issue Revised RMDS 2540, Chapter 9	6/98

**2.5 We recommend the Assistant Administrator for Enforcement and Compliance Assurance emphasize to ORCs:**

**2.5.1. the need to forward to FMOs within 3 workdays, copies of all source documents that are required to establish accounts receivable, and**

**2.5.2. the need to respond back to FMOs within 30 days concerning receivable collectibility determinations.**

We agree with this recommendation. We will send a memorandum to the Regional Counsels, reminding them of the importance of promptly notifying the FMOs within 3 business days when a Consent Decree (CD) has been received in their office and to supply a copy of the CD to the FMO. The memorandum will also define the requirement for ORCs to notify the FMOs within 30 days of a decision. In addition, it will explain the procedures and timing for

uncollected debt to be referred to DOJ for the initiation of a judicial action or to be forwarded to the FMO for referral to the Department of Treasury under the Debt Cross-Servicing agreement we have with Treasury.

<u>Corrective Action:</u>	<u>Target Date</u>
Send Memorandum to ORCs.	March 31, 1998.

**3.0 CONTINUING EFFORTS NEEDED TO IMPROVE THE ACCOUNTING FOR CAPITALIZED PROPERTY**

**3.1 Recommend that the Acting CFO, in conjunction with the Acting Assistant Administrator for Administration and Resources Management, continue to jointly work to strengthen controls designed to ensure that property is timely and accurately recorded in the Agency’s accounting system. Specifically, additional training should be provided to property and finance personnel addressing the roles, responsibilities, and requirements for processing and recording capital asset transactions in IFMS FAS.**

We do agree with the recommendation to provide more training to property and finance personnel. During fiscal year 1998, the Financial Management Division (FMD) and the Facilities Management Services Division (FMSD) plan to hold two property training sessions. The first session will be for property management officers where they will be provided additional training on using the Fixed Asset Subsystem and on the revised property management business process and other property management issues. The second session will be a joint session at the FMD technical work shop where both property and finance personnel will be briefed on their respective property accounting roles and responsibilities and will participate in panel discussions on related issues.

<u>Corrective Actions</u>	<u>Target Date</u>
- Property Training Session	March 9, 1998
- Joint Property/Finance Training	June 1998

**3.2 Recommend that the Acting Assistant Administrator for Administration and Resources Management encourage PMOs to establish property records in a timely manner once supporting documentation is received from the FMO during the reconciliation process.**

We agree with the recommendation to encourage the PMOs to establish property records in a timely manner once supporting documentation is received from the FMOs during the reconciliation process. At the property training session in March, FMSD will emphasize the importance of communicating with the FMOs to ensure that the procedures to obtain proper

documentation from the FMOs is followed. In addition, as noted above, the joint training session for PMOs and FMOs this summer will help ensure that both groups are aware of their duties and responsibilities.

<u>Corrective Actions</u>	<u>Target Date</u>
- Property Training Session	March 9, 1998
- Joint Property/Finance Training	June 1998

#### **ADDITIONAL ACCOUNT ANALYSIS COULD IMPROVE THE ACCURACY OF THE AGENCY'S FINANCIAL INFORMATION**

**4.0 Recommend that the Acting Chief Financial Officer continue to emphasize to regional financial personnel the importance of analytical reviews, and provide them timely general ledger account information and detailed training that is specific to each general ledger account.**

**RESPONSE:** We share your views on the need to continue to emphasize the importance of analytical reviews, to provide timely general ledger account information, and to provide detailed training to regional financial personnel that is specific to each general ledger account. However, we disagree with classifying this need to perform additional account analysis as a reportable condition and instead recommend that it be placed in a management letter.

The draft audit report identifies only two instances where the performance of additional account analysis could have improved the reliability of the financial data. In both instances, the amounts involved appear to be immaterial to the financial statements taken as a whole. Furthermore, they also do not appear to represent “significant deficiencies in the design or operation of the internal control structure,” as required by Statement on Auditing Standards No. 60. Therefore, we are of the opinion that they do not meet the threshold for classification as reportable conditions, but instead should be treated as Management Letter issues.

As stated in your draft report, we have already taken a number of actions to improve the Agency’s account analysis capabilities. These actions include: 1) issuing a matrix that provides a description of all of EPA’s general ledger accounts and that cross-walks these accounts to the government-wide Standard General Ledger, 2) providing training to finance office staff on how to perform general ledger account analysis, and 3) providing general ledger reports by finance office to the finance offices.

Currently we are working on several other major initiatives that when implemented should markedly improve our account analysis capabilities. One of the major initiatives we are currently working on is employing the personal computer-based file interrogation program IDEA (Interactive Data Extraction and Analysis) to allow us to perform various analyses of information contained in IFMS and other automated systems, including general ledger account analyses. We have purchased and distributed copies of this program to each of our finance offices, and expect

to provide training in the use of this software package in the near future. In addition, we are planning to hold a technical conference this summer and one of the topics will focus on account analysis.

Since we do not believe this should be categorized as a reportable condition, we have not provided specific corrective actions.

## **GRANT ACCRUAL PROCEDURES NEEDED**

### **5.0 Recommend that the Acting Chief Financial Officer develop guidance for determining the grant accrual amounts for future financial statements. The procedures should consider the impact of implementing OMB Bulletin 97-01 and should be supported by a verifiable rational analysis.**

**RESPONSE:** We fully agree with you that we will need to revise our grant accrual procedures for the fiscal year 1998 financial statements. We have been aware for some time now that the procedures developed for fiscal year 1997 could not be used for fiscal year 1998, because of changes in the form and content of the financial statements for fiscal year 1998. However, we do not agree with your Office classifying this situation as a reportable condition.

The relevant auditing standards define a reportable condition as “matters coming to the auditor’s attention that . . . . represent significant deficiencies in the design or operation of the internal control structure, which could adversely affect the organization’s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.”

We do not believe that our need to change our grant accrual procedures for fiscal year 1998, to meet the new reporting requirements contained in OMB’s Form and Content Bulletin, is a basis for concluding that our internal controls are deficient in this area. Every organization has to revise its policies and procedures from time to time to reflect changes in accounting standards and other circumstances. The fact that such changes need to be made does not mean that their internal controls are in some way deficient. The key is to identify the need to make such changes in a timely fashion, and to implement appropriate new or revised policies and procedures to correctly report the data in the financial statements.

We have already started developing new procedures to allow us to properly report the grant accruals in our fiscal year 1998 financial statements. Moreover, we believe we will have these new procedures in place in time to properly compute the year-end grant accrual for the fiscal year 1998 financial statements. If the procedures we develop do not result in the fair presentation of the grant accruals, then the OIG will have a basis for classifying our need to develop grant accrual procedures as a reportable condition; at this time, however, no evidence exists for such a classification.

## **CONTROLS FOR APPROVING INTERAGENCY INVOICES NEED TO BE IMPROVED**

We believe this section should be deleted from the final audit report since there are no recommendations and the earlier audit finding and recommendation on this subject is indicated as “closed” in the your Attachment 4 on the Status of Prior Audit Report Recommendations.

## **PROCEDURES NEED TO BE ESTABLISHED FOR IDENTIFYING, TRACKING AND REPORTING EPA’S ENVIRONMENTAL LIABILITY**

**7.0 We recommend that the Acting Chief Financial Officer work with the Assistant Administrator for Enforcement and Compliance Assurance, Acting Assistant Administrator for Administration and Resources Management, and the Office of General Counsel to jointly develop policies and procedures for tracking and annually reporting the Agency’s environmental liability.**

We agree with this recommendation that improvements are needed for tracking and reporting EPA’s environmental liabilities. FY 1997 was the first year for this requirement, and now that we have identified the components of environmental liabilities, OCFO will work with the responsible offices to develop procedures to capture this information.

<u>Corrective Action</u>	<u>Target Date</u>
Draft Procedures	April 30, 1998
Final Procedures	July 31, 1998

## **REVENUE WAS NOT PROPERLY RECORDED ON SUPERFUND STATE CONTRACTS**

**8.0 Recommend the Acting Chief Financial Officer continue working with finance officials to further their understanding of the SSC adjustments and how to utilize the spreadsheet analysis as a tool for determining necessary adjustments.**

**RESPONSE:** We agree with this recommendation. We plan to have a SSC training session specifically for the regional personnel who work with SSC billing and revenue activity. While the training will include IFMS transaction codes, the focus will be on the SSC event and what the general ledger impact of the SSC should be. The training will also explain the information contained in the SSC spreadsheet and how the spreadsheet should be used to post SSC revenue accruals. The training session is tentatively scheduled for July 1998.

<u>Corrective Action:</u>	<u>Target Date</u>
Training Session	July 1998

## **AUTOMATED APPLICATION PROCESSING CONTROLS FOR THE INTEGRATED FINANCIAL MANAGEMENT SYSTEM COULD NOT BE ASSESSED**

**Anticipate that FMD will proceed with the following steps toward the development of sufficient documentation for assessment: (1) fund the data dictionary development, and (2) fund the development of system documentation for the remaining IFMS modules after we complete our evaluation of the accounts receivable documentation. We believe that the cost for each of these two projects will exceed the Agency's \$100,000 funding threshold for systems development and, thus, each will require a decision paper in order to proceed.**

**RESPONSE:** As noted by the auditors, we provided the OIG with a copy of the Accounts Receivable documentation on September 30, 1997, and the auditors plan to review the documentation later this year as part of the fiscal 1998 Financial Statement audit. The cost for developing the detailed Accounts Receivable documentation was \$108,075. We estimate it would cost about \$1,000,000 to document the remaining IFMS modules, and another \$225,000 to develop the data dictionary. These estimates do not include the costs of maintaining the documentation once it is created.

As we have responded in prior audit reports, existing documentation is sufficient to support ongoing operation and maintenance of IFMS. From a functional and operational perspective, the benefits of this additional documentation do not justify the costs to develop and maintain it. IFMS is a mature system and OCFO will be initiating the system replacement project. We believe that it would not be economical to make major IFMS cost investments that could not be recovered within the next several years.

## **COMPLIANCE WITH LAWS AND REGULATIONS**

### **EPA IS NOT IN SUBSTANTIAL COMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS**

**10.0 We recommend that the Chief Financial Officer direct the Director for Financial Management (FMD) to:**

**10.1 Develop a remediation plan which includes resources, remedies, and intermediate target dates to bring the Agency into substantial compliance with Agency, OMB, and FFMIA requirements;**

**RESPONSE:** We disagree with the opinion that EPA's core financial systems are not in substantial compliance with the Federal Financial Management Improvement Act (FFMIA) requirements. We provided the OIG with instances where OCFO management was involved, informed, and made decisions on financial system Year 2000 project plans, costs, and progress. We also kept OIRM management informed of financial system Year 2000 plans, costs, and progress. We believe we were in substantial compliance with good information and financial management practices, even if our formal documentation of those events did not meet the letter of the guidance.

In addition, appropriate security practices, procedures, and controls were in effect during the audit period. We again acknowledge that the written financial security system plans, now complete and properly approved, were not updated at the time of the audit fieldwork to reflect the revised A-130, *Management of Federal Information Resources*, requirements.

In summary, we believe the EPA financial systems are in substantial compliance with the FFMIA requirements and, therefore, a formal remediation plan is not necessary. Although the formal documentation steps should have been followed, the missing documentation did not materially affect the outcome because of other effective controls and procedures in place. With respect to formal documentation, we have either initiated or completed the necessary corrective actions and formal steps called for in the appropriate EPA directives. The corrective actions initiated or completed are presented under recommendations 10.2 through 10.6 below.

**10.2 Follow existing EPA policy for System Life Cycle Management;**

**RESPONSE:** As mentioned in the response to Recommendation 10.1 above, OCFO and OIRM management were kept informed of the financial systems Year 2000 plans, costs, and progress. However, to ensure compliance with the formal documentation requirements, we have prepared, and management has approved, the IFMS Year 2000 decision paper, which follows EPA policy for System Life Cycle Management requirements and includes the project resources and implementation plans. FMD is preparing a similar Year 2000 decision paper for EPAYS.

As shown in the table below, all of the OCFO financial management systems renovation, validation, and implementation dates are ahead of or in compliance with OMB milestone dates. These dates are supported by current detailed Year 2000 remediation work plans.

System	Assessment	Renovation	Validation	Implementation
<b>IFMS( Includes CPARS AND MARS)</b>	8/97	IFMS 03/98 MARS 03/98 CPARS 04/98	IFMS 07/98 MARS 07/98 CPARS 08/98	IFMS 07/98 MARS 07/98 CPARS 08/98
<b>EPAYS (Includes TAPP, Employee Express)</b>	9/97	09/30/98 (EE 3/98)	12/31/98 (EE 4/98)	1/31/99 (EE 5/98)
<b>OMB Guidance</b>	6/97	9/98	1/99	3/99

We are currently in the unit test phase of the IFMS, MARS, and CPARS Year 2000 changes. We are on schedule to implement the IFMS, MARS, and CPARS Year 2000 changes by August 15, 1998.

We would like to correct a misunderstanding about the critical date for the EPAYS changes. The audit report states: "EPAYS may experience failure with Year 2000 compliance as two year funding will also affect this system effective October 1, 1998, and Year 2000 enhancements for the system are not scheduled for completion until January 1, 1999." However, unlike the IFMS system, the two-year funding field in EPAYS is just a data entry field and is not critical to the

operation of EPAYS. The critical date for EPAYS, then, is not October 1, 1998, but October 1, 1999, when FY 2000 begins. We are in the renovation phase of the EPAYS Year 2000 changes and we plan to implement these changes by January 1, 1999.

<u>Corrective Action:</u>	<u>Target Date</u>
OCFO and OIRM Approval of IFMS Decision Paper	Completed
Complete EPAYS Year 2000 Decision Paper	3/15/98
OCFO and OIRM Approval of EPAYS Decision Paper	3/31/98

**10.3 With the assistance of the Office of Information Resources Management, ensure that application security plans are developed, approved, and implemented for all of the OCFO's financial management systems;**

**RESPONSE:** We agree that the financial systems application security plans should have been updated earlier. However, there is no indication that the security of these systems was at any substantial risk while this documentation was being updated. FMD completed the IFMS, MARS and CPARS application security plans, and these plans were approved on January 16, 1998. FMD also completed the EPAYS and Employee Express application security plans, and these plans were approved on January 26, 1998. We provided copies of the security plans to the auditors and to OIRM.

<u>Corrective Action:</u>	<u>Target Date</u>
Approved IFMS, MARS, CPARS security plans	Completed
Approved EPAYS and Employee Express security plans	Completed

**10.4 Implement policies and procedures where necessary to ensure appropriate FMD oversight of system planning, and upgrade and maintenance operations for financial systems;**

**RESPONSE:** We believe that we have adequate management oversight of our system planning, upgrade, and maintenance operations through the OCFO "chain of command," through which all major budgetary and operational issues are discussed and appropriate approvals obtained. With the maturing of IFMS, the reorganization of OARM that created OCFO and brought the IRM staff associated with IFMS into OCFO, and the mandatory nature of many of the IFMS activities that our budget has permitted us to undertake in the past several years, the original charters of the Systems Management Group (SMG) and Executive Management Group (EMG) no longer reflect the current IFMS operating environment. We will review the SMG and EMG charters, and update them as appropriate. The current Accounting Operations Special Interest Group is an important way of receiving input on systems issues from the user community and we will continue

to be involved with that group. With the planning for a replacement to IFMS, we will explore

ways to ensure communication and coordination with the user community to ensure their participation in these critical decisions.

<u>Corrective Action:</u>	<u>Target Date</u>
Review and Update SMG & EMG Charters	3/31/98
Establish SMG/EMG or alternative groups	5/31/98

**10.5 Ensure that the financial systems annual inventory data required by OMB is consistent, comparable, and accurate; and**

**10.6 Ensure that the annual update of the CFO Financial Management Report and Five Year Plan submitted to OMB includes all significant system changes in the financial systems inventory.**

**RESPONSE:** We agree that the accuracy of the inventory data and the annual update to the CFO's five-year plan should not be considered "material" concerns. As part of our next update, we will provide more complete guidance to the system managers on the information requested on the OMB data inventory. We will also include the system inventory in future CFO Five-Year Plans.

<u>Corrective Action:</u>	<u>Target Date</u>
Improve guidance for OMB Inventory Update	9/30/98
Include System Inventory in CFO Five-Year Plan	10/30/98

**EPA IS NOT COMPLYING WITH APPROPRIATIONS LAW WHEN DISBURSING GRANTS FUNDED WITH MULTIPLE APPROPRIATIONS**

**11.0 We recommend that the Acting CFO and Acting Assistant Administrator for Administration and Resources Management finalize and implement guidance for awarding and disbursing multiple-funded grants that complies with Title 31 U.S.C. 1301.**

**RESPONSE:** As noted in Attachment A, there has been no determination that we are not in compliance with the relevant laws. Therefore, this recommendation should be eliminated.

### ADDITIONAL OIG COMMENTS ON THE AGENCY'S RESPONSE

---

1. We have revised this paragraph to more clearly explain the reason we are qualifying our opinion on the fiscal 1997 Superfund Statement of Operations and Changes in Net Position. We continue to believe, however, that the weaknesses we found in EPA's accounting for unbilled Superfund oversight costs are serious weaknesses needing high level management attention.
2. The OIG's Office of Investigations has cases ongoing which could reveal that EPA's grantees and contractors violated laws and regulations. As evidence gathering and judiciary proceedings continue, the outcome of these cases which have yet to be determined could materially affect future financial statements. Accordingly, no changes have been made to the report.
3. We have revised this section to clarify the number of weaknesses that have been corrected (two), the number with one or more corrective actions remaining open (six) and the number where actions were reported as completed or closed (seven). However, for some of the weaknesses shown as completed or closed, our fiscal 1997 audit disclosed the need for additional corrective actions.
4. Since the issuance of the draft audit report, the Agency completed the estimate of its pension and other retirement expenses. Our audit work determined that the amounts were reasonable. Therefore, the report has been revised to delete any references to the need to develop an estimate of pension and other retirement benefit expenses.
5. In order to avoid confusion as to the significance of the items included in the management letter, we purposely omitted any discussion. However, we must inform the reader of the audit report that other control weaknesses also exist.
6. We have revised this paragraph of the report to more clearly acknowledge the aggressive actions taken by the Agency to correct weaknesses in the property area.
7. We have included these issues because they represent significant weaknesses that either directly or indirectly affect EPA's financial management activities and financial statements. For example, some of the financial management systems EPA lists in its financial systems inventory use regional LANs. Delays in the Agency's close out of its grants affects EPA's available budgetary resources.
8. We continue to believe that controls were not in place in all regions to track Superfund sites, their status, site costs, and billing and collection data. Without such controls, billing oversight costs has become a more difficult, time consuming task. It is these same problems which make estimating unbilled oversight costs such a labor intensive effort.

9. The Agency's process to estimate the unbilled oversight costs takes into account the fact that all potentially billable costs may not be recovered. Therefore, the number included in the financial statements represents what the Agency expects to recover.
10. The finding was revised to address the concerns noted, as well as the additional accounting and auditing work completed since issuance of the draft report.
11. As stated in the audit report, we attributed the untimely recording of accounts receivable to the ORCs and program offices not timely providing supporting documentation to the FMOs. We did not take exception to how timely the FMOs record the receivables in IFMS once they receive the supporting documentation from the ORCs and program offices.
12. We made no reference to the Region 2 FMO in the oversight cost billing example.
13. The audit report has been revised to acknowledge the Agency's comments.
14. The \$4,205,020 is the acquisition cost of the property. The acquisition cost, and not the net book value, should be entered in FAS and IFMS.
15. We acknowledge the Agency's efforts to reconcile the differences between FAS and IFMS. We encourage the Agency to follow-through and ensure the appropriate property records are established in FAS.
16. We have revised the report to state that implementation of SFFAS No. 6 was not required for fiscal 1997. However, the Agency elected to report in the fiscal 1997 financial statements its known environmental liability at its facilities.

## REPORT DISTRIBUTION LIST

---

Acting Inspector General (2410)  
Acting Chief Financial Officer (2710)  
Acting Assistant Administrator for Administration and Resources Management (3101)  
Assistant Administrator for Solid Waste and Emergency Response (5101)  
Assistant Administrator for Enforcement and Compliance Assurance (2201A)  
Associate Administrator for Regional Operations and State/Local Relations (1501)  
General Counsel (2310)  
Comptroller (2731)  
Director, Office of Administration (3201)  
Director, Office of Acquisition Management (3801R)  
Director, Office of Grants and Debarment (3901R)  
Director, Office of Administration and Resources Management, Cincinnati, OH  
Director, Office of Administration and Resources Management, RTP, NC  
Director, Office of Information Resources Management (3401)  
Director, Office of Site Remediation Enforcement (2271A)  
Director, Office of Emergency and Remedial Response (5201G)  
Director, Annual Planning and Budget Division (2732)  
Director, Grants Administration Division (3903R)  
Director, Enterprise Systems Division (3409)  
Director, Facilities Management and Services Division (3204)  
Director, Financial Management Division (2733R)  
Director, Financial Services Division (2734R)  
Director, Enterprise Technology Services Division, OIRM, RTP, NC  
Financial Management Officers at Regions 1, 2, 3, 4, 5, 8, and 9, Cincinnati, Las Vegas,  
and Research Triangle Park  
Chief, Financial Reports and Analysis Branch (2733R)  
Chief, Program and Cost Accounting Branch (2733R)  
Chief, Financial Systems Branch (2733R)  
Chief, Financial Policies, Procedures and Compliance Branch (2733R)  
Chief, Washington Financial Management Center (2734R)  
Chief, Security and Property Management Branch (3204)  
Kathy Sedlak O'Brien, Agency Audit Followup Coordinator (2724)  
Vanessa Bowie, Audit Liaison for the Office of the Chief Financial Officer (2710)  
Lora Culver, Audit Liaison for the Office of Administration and Resources Management (3102)  
Elizabeth Harris, Audit Liaison for the Office of Solid Waste and Emergency Response (5103)  
Tom Pastore, Audit Liaison for the Office of Administration (3201)  
Linda Garrison, Audit Liaison for the Office of Information Resources Management (3402)  
Greg Marion, Audit Liaison for the Office of Enforcement and Compliance Assurance (2201A)  
John Showman, Audit Liaison for the Grants Administration Division (3903R)  
Pat Gilchrist, Audit Liaison for the Administrator's Office (1104)