



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

OFFICE OF
INSPECTOR GENERAL

June 14, 2023

MEMORANDUM

SUBJECT: Notification of Audit:
The EPA's Fiscal Years 2023 and 2022 Consolidated Financial Statement Audit
Project No. OA-FY23-0078

FROM: Damon Jackson, Director
Financial Directorate
Office of Audit

TO: Faisal Amin, Chief Financial Officer

The U.S. Environmental Protection Agency Office of Inspector General plans to begin our required audit of the EPA's fiscal years 2023 and 2022 consolidated financial statements and notes. This audit is part of the OIG's [oversight plan](#) for fiscal year 2023 and is statutorily required by the Government Management Reform Act of 1994. This audit also addresses the following fiscal year 2023 [top management challenge](#) for the Agency: managing business operations and resources.

We are providing this memorandum to (1) continue our mutual efforts to establish a high level of expectations for and commitments by all offices to provide timely and accurate information in support of the financial statements and other information included in the EPA's annual financial report and (2) help ensure a mutual understanding of our respective roles and responsibilities during the audit. Attachment 1, "Audit Expectations," provides more details about our respective responsibilities. Attachment 2, "Key Milestones," highlights critical timelines that must be met to complete this audit in a timely manner.

We are conducting this audit to express an opinion on the EPA's financial statements and notes. Additionally, our objectives are to determine whether the EPA's:

1. Financial statements are fairly presented in all material respects in accordance with generally accepted accounting principles.
2. Internal control over financial reporting is in place.
3. Management has complied with applicable laws, regulations, contracts, and grant agreements.

We appreciate the continued level of commitment and cooperation exhibited by staff and managers from your office during our audit of the EPA's fiscal years 2022 and 2021 consolidated financial statements and notes. Their support allowed us to complete the audit by the deadline. We encourage you to continue your efforts to strengthen the Agency's coordination and quality-control processes to ensure that accurate data are available in a timely manner to prepare the annual financial statements and that these statements and supporting documentation are made available in an expeditious manner for our audit. For the fiscal

years 2023 and 2022 consolidated financial statements and notes, we will issue an audit report with our opinion in accordance with the Office of Management and Budget's deadline.

We will keep you promptly informed of any delays, with the goal of keeping our respective staffs on track to meet the Office of Management and Budget's deadline for submitting audited financial statements. We will also be glad to assist you in updating office directors regarding the progress and status of the audited financial statements, including briefing senior officials, if necessary.

It is extremely important that any new processes or procedures developed be provided to us in a timely manner—especially any new processes involving the Compass Financials system or changes in controls as a result of modifications to the system. Providing us with such processes or procedures late in the audit may complicate or prevent our development of procedures to audit such information in time to meet the Office of Management and Budget's deadline. If the EPA has made substantial changes to Compass, we will need additional support from your staff to update our documentation of your controls.

We will contact you to arrange a mutually agreeable time for the entrance conference to discuss our objectives. The estimated timetable for the audit and the types of assistance needed will be discussed at that time. We understand that the EPA expects to prepare an annual financial report for fiscal year 2023 that will include the audited comparative financial statements and other information required by the Office of Management and Budget.

We expect that our audit work will involve all EPA finance centers, as well as other financial and program offices at EPA headquarters and in the EPA regions, as needed. We will conduct most of our audit work remotely; however, if we need to perform any on-site work, we will coordinate with the relevant offices. We may also contact offices at which we do not plan to perform work to obtain information needed for our audit. Applicable generally accepted government auditing standards will be used in conducting our audit. The anticipated benefits of this audit are improved EPA business practices and accountability.

We request that you provide the following data as soon as possible, but no later than two weeks from the date of this notification memorandum. Furthermore, we request that you continue to provide this information throughout the audit as it is developed:

1. The most current Compass business process reengineering maps.
2. The most current posting models at the general ledger account-entry level.
3. Recent policies or procedures on posting transactions in Compass, including spending adjustment documents developed by the Compass contractor and current crosswalks.
4. A list of any new accounts in fiscal year 2023.
5. A list of new document types, transaction types, general ledger accounting entries, and standard vouchers.
6. A list of changes to existing document types, transaction types, and standard vouchers.
7. Any general ledger account variance analysis or analytical review performed.
8. The most current cumulative Compass contractor change request list.

9. The most current cumulative schedule of posting model changes, known as “Reference Table Updates.”
10. Briefing materials or a summary of significant information provided to the Office of the Chief Financial Officer senior management on subjects not otherwise addressed by the items listed above, such as the quarterly variance analysis.

We expect to request additional items from the Agency.

We respectfully note that the Inspector General Act of 1978, as amended, authorizes the OIG to have timely access to personnel and all materials necessary to complete our objectives. Similarly, EPA Manual 6500, *Functions and Activities of the Office of Inspector General* (1994), requires that each EPA employee cooperate with and fully disclose information to the OIG. Also, Administrator Michael S. Regan, in a May 16, 2023 email to EPA employees, stated that the “agency and its employees have a duty to cooperate with OIG” and observed that “full engagement and collaboration between the OIG and EPA provides our agency with the opportunity to improve program performance and efficiency.” If an Agency employee or contractor refuses to provide requested materials to the OIG or otherwise fails to cooperate with the OIG, we will request that you immediately resolve the situation. Consistent with the IG Act, we may report unresolved access matters to the administrator and to Congress.

We will work closely with your staff to ensure that the audit meets the Office of Management and Budget’s deadline. If you know of issues that you would like us to address during the audit, we can discuss them at the entrance conference.

We will post this memorandum on our public website at www.epa.gov/oig. Anyone with knowledge of potential fraud, waste, abuse, misconduct, or mismanagement related to this audit should contact the OIG Hotline at (888) 546-8740 or via an electronic form on the “OIG Hotline” [webpage](#).

Attachments (2)

cc: Janet McCabe, Deputy Administrator
Dan Utech, Chief of Staff, Office of the Administrator
Jon Monger, Assistant Deputy Administrator
Wesley J. Carpenter, Deputy Chief of Staff for Management, Office of the Administrator
Carol Terris, Deputy Chief Financial Officer
Lek Kadeli, Associate Chief Financial Officer
Meshell Jones-Peeler, Controller
Adil Gulamali, Deputy Controller
Richard Gray, Associate Deputy Controller
Brian Webb, Director, Policy, Training and Accountability Division, Office of the Controller
Nikki Wood, Chief, Management, Integrity and Accountability Branch; Policy, Training, and Accountability Division, Office of the Controller
Dany Lavergne, Director, Accounting and Cost Analysis Division, Office of the Controller
Vonda Jennette, Deputy Director, Accounting and Cost Analysis Division, Office of the Controller
Natasha Gonzalez, Acting Director, Research Triangle Park Finance Center, Office of the Controller
Greg Luebbering, Director, Cincinnati Finance Center, Office of the Controller
Stacey Church, Chief, Fees and Collections Branch, Office of the Chief Financial Officer

Simranjeet Jassal, Chief, General Ledger Analysis and Reporting Branch, Office of the Controller
Kimberly Patrick, Principal Deputy Assistant Administrator for Mission Support
Andrew Schreyer, Deputy Assistant Administrator for Mission Support
Vaughn Noga, Deputy Assistant Administrator for Environmental Information and Chief
Information Officer, Office of Mission Support
Dan Coogan, Acting Director, Office of Resources and Business Operations, Office of
Mission Support
Michael Benton, Audit Follow-Up Coordinator, Office of the Administrator
Alana Maye, Audit Liaison, Office of Technology Solutions, Office of the Chief Financial Officer
Larisha McKnight, Backup Audit Liaison, Office of Technology Solutions, Office of the Chief
Financial Officer
Gwendolyn Spriggs, Audit Follow-Up Coordinator, Office of Enforcement and
Compliance Assurance
Janet Weiner, Senior Audit Advisor, Office of Chemical Safety and Pollution Prevention
Afreeka Wilson, Audit Follow-Up Coordinator, Office of Mission Support
Susan Perkins, Agency Follow-Up Coordinator
Andrew LeBlanc, Agency Follow-Up Coordinator
José Kercado, Agency Follow-Up Coordinator
Charles Widener, Acting Principal Deputy Associate Administrator for Public Affairs
Lance McCluncy, Director, Office of Administrator and Executive Services, Office of
the Administrator
Regional Audit Follow-Up Coordinators, Regions 1–10
Sean W. O'Donnell, Inspector General
Nicole N. Murley, Acting Deputy Inspector General

Audit Expectations

We will audit the EPA's consolidated balance sheet as of September 30, 2023, and September 30, 2022; the related consolidated statements of net cost, net cost by major program, changes in net position, and custodial activity; the combined statement of budgetary resources for the years then ended; and the related notes to the financial statements. We confirm our acceptance and our understanding of this audit engagement by means of this memorandum. Our audit will be conducted with the objective of our expressing an opinion on the financial statements and to determine whether the EPA's:

1. Financial statements are fairly presented in all material respects in accordance with generally accepted accounting principles. This includes determining whether the information and manner of presentation in the Management's Discussion and Analysis and any other accompanying information are materially consistent with the information contained in the principal statements.
2. Internal control structure over financial reporting related to the financial statements is in place and provides reasonable assurances that:
 - a. Financial transactions are executed in compliance with applicable laws, regulations, contracts, and grant agreements.
 - b. Assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
 - c. Transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements.
3. Management has complied with laws, regulations, contracts, and grant agreements that have a direct and material effect on the financial statements, including determining whether the Agency has substantially complied with the Federal Financial Management Improvement Act provisions.

Auditor's Responsibilities

We will conduct our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the comptroller general of the United States of America; and Office of Management and Budget Bulletin 22-01, *Audit Requirements for Federal Financial Statements*. The *Government Auditing Standards* requires that we plan and perform our audits to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance; therefore, it is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

We are required to be independent of the EPA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits.

As part of our audit in accordance with auditing standards generally accepted in the United States of America, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the financial statement audit, including the EPA's Federal Managers' Financial Integrity Act of 1982 process, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the EPA's internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements may not be detected exists, even though the audit is properly planned and performed in accordance with the standards.

Management's Responsibilities

The financial statements are the responsibility of the EPA's management. Our audit will be conducted on the basis that the EPA's management acknowledges and understands that it has responsibility for the:

1. Preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
2. Design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.
3. Provision of the following to us:
 - a. Access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - b. Additional information that we may request from management for the purpose of the audit.
 - c. Unrestricted access to persons within the EPA from whom we determine it necessary to obtain audit evidence.

- d. Any reports obtained from the EPA's service organizations.
4. Compliance with laws, regulations, contracts, and grant agreements applicable to the EPA.
5. Preparation, measurement, and presentation of the required supplementary information in accordance with prescribed guidelines established in accounting principles generally accepted in the United States of America.
6. Assurance that the EPA's financial management systems substantially comply with federal financial management system requirements.
7. Maintenance of adequate accounting records, selection and application of appropriate accounting policies, and protection of U.S. government assets related to the EPA's operations.
8. Assurance that all financial records and related information are available to us in a timely manner.

As part of our audit process, we will request that key senior managers provide us with management representation letters at the conclusion of our audit work.

Reporting

We will issue a written report upon completion of our audit of the EPA's fiscal year 2023 consolidated financial statements in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the comptroller general of the United States of America; and Office of Management and Budget Bulletin 22-01, *Audit Requirements for Federal Financial Statements*.

Our report will be addressed to EPA management. Circumstances may arise in which our report may differ from its expected form and content based on the results of our audit. Depending on the nature of these circumstances, it may be necessary for us to modify our opinion and add an emphasis-of-matter paragraph or other-matter paragraph to our auditor's report. We will issue our audit report with our opinion in accordance with the Office of Management and Budget's deadline, regardless of the readiness of the Agency's financial statements.

Please sign and return the attached copy of this memorandum to indicate your acknowledgment of, and agreement with, the arrangements of our audit of the EPA's fiscal years 2023 and 2022 financial statements, including our respective responsibilities.

Faisal Amin
Chief Financial Officer

Date

Key Milestones

To ensure the success and timely completion of this audit, please see the key milestones below.

Milestones	Timelines	Responsible party
Entrance conference	At least 15 business days after notification memorandum issuance date	All
Finance centers and property management officers' management representation letters	Two weeks after the fiscal year ends	• Headquarters • Cincinnati Finance Center • Research Triangle Park Finance Center
Draft financial statements and footnotes, including support, and Management's Discussion and Analysis <i>Note: All Agency adjustments are to be included in the draft. No additional adjustments are allowed except for the schedule of audit differences.</i>	Three weeks after the fiscal year ends	Office of the Chief Financial Officer
Final financial statements and footnotes, including support, and Management's Discussion and Analysis	Three business days after receipt of schedule of audit differences*	Office of the Chief Financial Officer
Management representation letter	Five business days after final financial statements are provided to the OIG*	Office of the Chief Financial Officer

*To be provided by close of business or before.