



At a Glance

Why We Did This Review

We performed this audit in accordance with the Government Management Reform Act, which requires the U.S. Environmental Protection Agency (EPA) to prepare, and the Office of Inspector General to audit, the Agency's financial statements each year. Our primary objectives were to determine whether:

- EPA's consolidated financial statements were fairly stated in all material respects.
- EPA's internal controls over financial reporting were in place.
- EPA management complied with applicable laws and regulations.

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.

This report addresses the following EPA Goal or Cross-Cutting Strategy:

- *Strengthening EPA's Workforce and Capabilities*

For further information, contact our Office of Congressional and Public Affairs at (202) 566-2391.

The full report is at:
www.epa.gov/oig/reports/2013/20121115-13-1-0054.pdf

Audit of EPA's Fiscal 2012 and 2011 Consolidated Financial Statements

EPA Receives an Unqualified Opinion

We rendered an unqualified opinion on EPA's consolidated financial statements for fiscal 2012 and 2011, meaning that they were fairly presented and free of material misstatements.

Internal Control Material Weakness/Significant Deficiencies Noted

In October 2011, EPA replaced the Integrated Financial Management System with a new system, Compass Financials (Compass), and we determined that Compass reporting and system limitations represented a material weakness. In addition, we noted the following significant deficiencies, some of which involve Compass and contributed to the material weakness:

- Posting models in Compass materially misstated general ledger activity and balances.
- Compass reporting limitations impair accounting operations and internal controls.
- EPA did not reverse approximately \$108 million in expense accruals.
- Compass system limitations impair internal controls of financial operations.
- Accounts receivable internal controls contained numerous deficiencies.
- EPA did not timely clear Fund Balance with Treasury Statement of Differences transactions.
- Compass did not have sufficient controls over personal property entries.
- Compass and the Maximo property system cannot be reconciled.
- EPA did not monitor the testing of networked information technology assets to identify commonly known vulnerabilities.
- EPA lacks reliable information on security controls for financial systems.

Noncompliance With Laws and Regulations Noted

EPA has limited assurance that its Compass service provider's controls are designed and operating as intended.

Recommendations and Planned Agency Corrective Actions

The Agency disagreed with most of our findings but accepted many of our recommendations. In particular, the Agency stated it identified and then fixed or remediated most of the limitations of its new Compass system and, thus, there were no material issues during the preparation of the financial statements. The Agency characterized the errors we found as normal problems during collection and verification activities. However, we disagree that was the case. The errors we found occurred primarily because of posting models deficiencies in the new system and the failure of internal controls to detect and correct the errors.